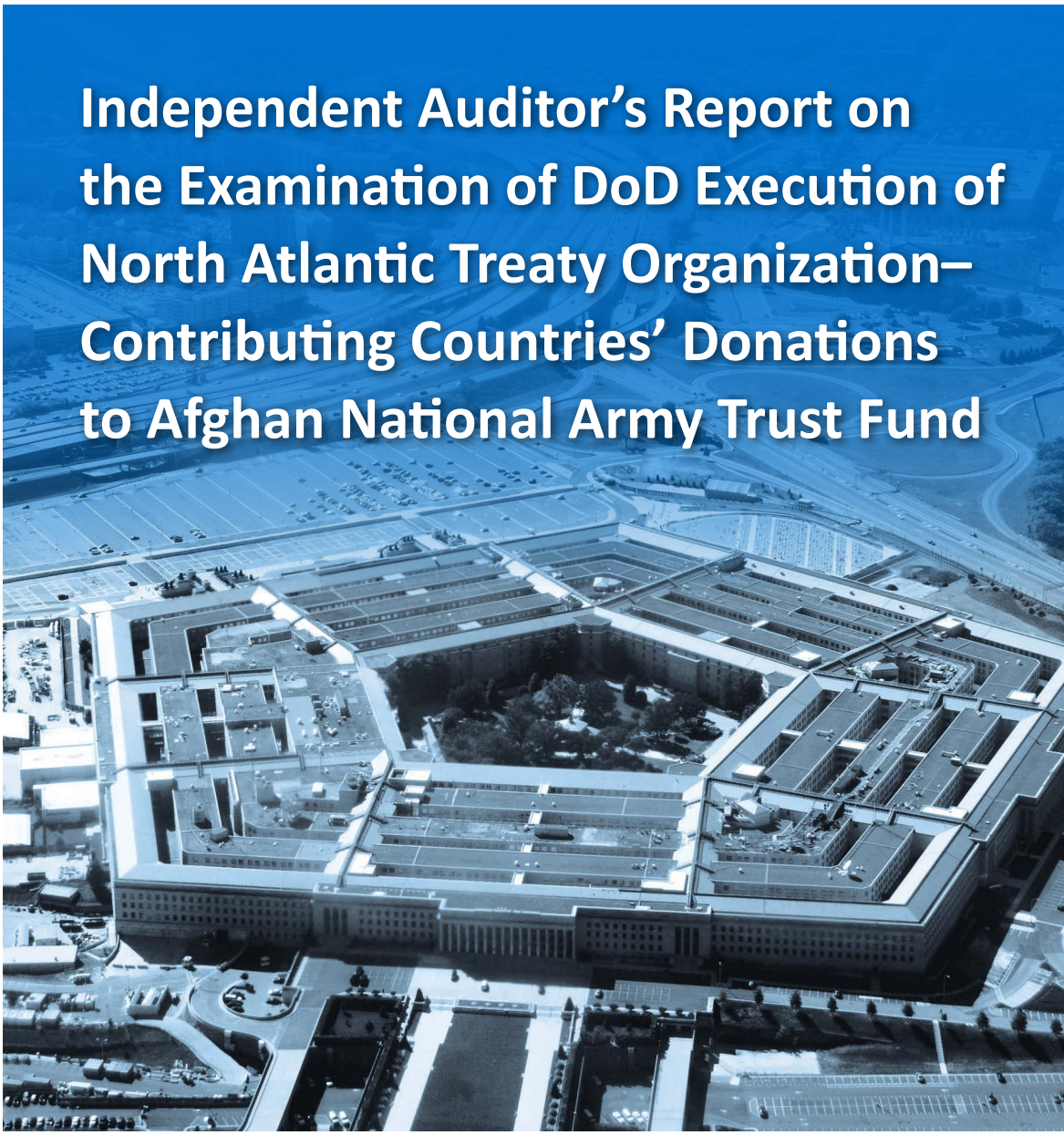
Report No. DODIG-2014-046

Inspector General

U.S. Department of Defense

MARCH 24, 2014

Independent Auditor's Report on the Examination of DoD Execution of North Atlantic Treaty Organization–Contributing Countries' Donations to Afghan National Army Trust Fund



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INSPECTOR GENERAL
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4800 MARK CENTER DRIVE
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March 24, 2014

MEMORANDUM FOR UNDER SECRETARY OF DEFENSE (COMPTROLLER)/
CHIEF FINANCIAL OFFICER, DOD
COMMANDING GENERAL, COMBINED SECURITY TRANSITION
COMMAND–AFGHANISTAN

SUBJECT: Independent Auditor's Report on the Examination of DoD Execution of North Atlantic Treaty Organization–Contributing Countries' Donations to Afghan National Army Trust Fund (Report No. DODIG-2014-046)

We are providing this report for your information and use. We performed the examination in response to a request from the Office of the Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD (OUSD[C]/CFO). We examined whether receipts and expenditures were fairly presented for the North Atlantic Treaty Organization (NATO) Afghan National Army (ANA) Trust Fund contributions added to the U.S. Government Afghanistan Security Forces Fund (ASFF) as of March 31, 2013. We identified material internal control weaknesses related to the financial reporting processes and noncompliance with laws and regulations. Although internal control weaknesses existed, for the sampled projects, we did not identify internal control weaknesses within the cash collection process for the NATO contributions received and did not identify any instances where the donor country contributions were applied to contracts that conflicted with the donors' intent.

We considered management comments on a draft of this report when preparing the final report. Comments from OUSD(C)/CFO, the Combined Security Transition Command–Afghanistan (CSTC-A), and the Defense Finance and Accounting Service conformed to the requirements of DoD Directive 7650.3; therefore, we do not require additional comments. At the request of the U.S. Commanding General, CSTC-A, we redirected all recommendations reflecting North Atlantic Treaty Organization Training Mission-Afghanistan/CSTC-A, to reflect only CSTC-A.

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

Amy J. Frontz, CPA
Principal Assistant Inspector General
for Auditing

INSPECTOR GENERAL

DEPARTMENT OF DEFENSE

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February 4, 2014

MEMORANDUM FOR UNDER SECRETARY OF DEFENSE (COMPTROLLER)/
CHIEF FINANCIAL OFFICER, DOD

SUBJECT: Independent Auditor's Report on the Examination of DoD Execution of North Atlantic Treaty Organization–Contributing Countries' Donations to Afghan National Army Trust Fund (Project No. D2013-D000FL-0056.000)

We were engaged to examine whether receipts and expenditures were presented fairly in the accompanying Financial Statement[1] of the North Atlantic Treaty Organization (NATO) Afghan National Army (ANA) Trust Fund contributions added to the U.S. Government Afghanistan Security Forces Fund (ASFF) through March 31, 2013 (financial schedule). The Office of the Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD, (OUSD[C]/CFO) is responsible for the financial schedule of the NATO ANA Trust Fund contributions. The OUSD(C)/CFO and NATO Training Mission–Afghanistan (NTM-A)/Combined Security Transition Command–Afghanistan (CSTC-A) are responsible for implementing effective internal controls and complying with laws and regulations governing contributions from the NATO ANA Trust Fund to the ASFF.

OUSD(C)/CFO asserted that the funds received, obligated, and disbursed for NATO contributions in FY 2010, FY 2011, and FY 2012 were presented fairly.[2] See the attachment for the assertion and financial schedule. However, the supporting schedule[3] provided by OUSD(C)/CFO reported a material difference in obligations and disbursements. Additionally, OUSD(C)/CFO was unable to provide sufficient evidence, at the transaction level, to enable us to determine the accuracy and completeness of the project-level information. This limitation precluded us from determining whether material amounts of obligations and disbursements were fairly stated.

Because of the restriction on the scope of our examination discussed in the preceding paragraph, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on whether the financial schedule referred to above presents, in all

[1] Although titled "Financial Statement," this document is a financial schedule illustrating the financial status (receipt, obligation, and disbursement) of the NATO ANA Trust Fund donations.

[2] The assertion did not identify the criteria NTM-A/CSTC-A used to prepare the financial schedule. However, according to OUSD(C)/CFO, the financial schedule was based on the Army's March 31, 2013, Accounting Report (Monthly) 1002 report, which is supposed to be prepared in accordance with generally accepted accounting principles.

[3] OUSD(C)/CFO provided a schedule of the funds received and obligated for FYs 2010, 2011, and 2012 by project.

material respects, receipts and expenditures of funds contributed to the NATO ANA Trust Fund and transferred to DoD for execution, in accordance with generally accepted accounting principles. In addition to our disclaimer of opinion on the financial schedule, we are including findings on internal controls and compliance with laws and regulations. These findings are based on our review of compliance with Office of Management and Budget Circular A-123, public law, and the Memorandum of Understanding governing the contributions to the NATO ANA Trust Fund. These findings are an integral part of our disclaimer of opinion on the financial schedule and should be considered in assessing the results of our work.

In accordance with government auditing standards, we are required to report all deficiencies that are considered to be significant deficiencies or material weaknesses in internal control; fraud and noncompliance with provisions of laws or regulations that have a material effect on the presentation of the NATO ANA Trust Fund; any other instances that warrant the attention of those charged with governance; noncompliance with provisions of contracts or grant agreements; and abuse that has a material effect on the subject matter. We are also required to obtain and report the views of responsible officials concerning the findings, conclusions, and recommendations, as well as any planned corrective actions.

We performed our examination to express an opinion on whether the NATO ANA Trust Fund Financial Schedule is presented in accordance with the criteria described above and not for the purpose of expressing an opinion on the internal controls or on compliance with laws and regulations and other matters; accordingly, we express no such opinions. Our examination disclosed certain findings that are required to be reported under government auditing standards and those findings, along with the views of responsible officials, are described in the attached findings on Internal Controls and Compliance with Laws and Regulations.

Amy J. Frontz, CPA
Principal Assistant Inspector General
for Auditing

Attachment:
As stated

Internal Controls

Office of Management and Budget Circular A-123, "Management's Responsibility for Internal Control," December 21, 2004, which implements the Federal Manager's Financial Integrity Act of 1982, as codified in section 3512, title 31, United States Code, requires management to establish and maintain internal controls to achieve the objectives of effective and efficient operations, reliable financial reporting, and compliance with applicable laws and regulations. Management should design financial internal controls to provide reasonable assurance that:

- obligations and costs are in compliance with applicable laws;
- funds are safeguarded against waste, loss, unauthorized use, or misappropriation; and
- revenues and expenditures are properly recorded and accounted for to permit the preparation of accounts and reliable financial reports and to maintain accountability over assets.

On August 13, 2013, OUSD(C)/CFO asserted that $520.0 million in funds received, $331.2 million in obligations, and $163.7 million in disbursements through March 31, 2013, for NATO contributions received in FY 2010, FY 2011, and FY 2012, as reported in the financial schedule, were presented fairly and that the accuracy and completeness of the financial schedule could be verified by reviewing the schedules of supporting data as of March 31, 2013.

To determine whether OUSD(C)/CFO fairly presented the receipts and expenditures of the NATO contributions, the audit team statistically sampled 32 of 64 projects, which included $414.2 million of the $520.0 million contributed to the NATO ANA Trust Fund. For the projects reviewed, the auditors determined there were adequate internal controls within the cash collection process for the NATO contributions received. However, the auditors identified internal control deficiencies in other financial reporting processes.

Inadequate Controls

OUSD(C)/CFO and NTM-A/CSTC-A did not have adequate internal controls over the financial reporting of the NATO ANA Trust Fund contributions to the ASFF to ensure the expenditures reported in the financial schedule, as of March 31, 2013, were presented fairly. We identified internal control deficiencies in the financial reporting processes that, in combination, created material weaknesses in the financial reporting of the NATO ANA Trust Fund contributions.

A material weakness is a deficiency, or a combination of deficiencies, in internal controls such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. OUSD(C)/CFO and NTM-A/CSTC-A's lack of effective financial reporting processes has created material weaknesses in the internal controls over financial reporting.

Financial Reporting Process

OUSD(C)/CFO and NTM-A/CSTC-A personnel provided a project-level supporting schedule that did not reconcile to their financial schedule or to the accounting data for the funds obligated and disbursed as of March 31, 2013. On October 8, 2013, OUSD(C)/CFO personnel provided a final version of the supporting schedule of funds status by project, which did not include $35.1 million[4] of the reported obligations and also did not include any of the $163.7 million in reported disbursements. In addition, OUSD(C)/CFO personnel stated their basis for developing the financial schedule was the Accounting Report (Monthly) 1002, "Appropriation Status By Fiscal Year Program and Subaccounts," (AR[M] 1002), a compilation of Army accounting data. However, the supporting schedule did not reconcile to the AR(M) 1002 report.

OUSD(C)/CFO is responsible for providing oversight of the ASFF program, including reviewing and approving the financial reports. NTM-A/CSTC-A is responsible for management and execution of the program, including preparation of financial reports. To prepare the financial reports, NTM-A/CSTC-A relied on an unreliable manual tracking system rather than compiling available financial data from the Army's accounting systems. In developing its financial schedule for the assertion, OUSD(C)/CFO used the AR(M) 1002 report. However, NTM-A/CSTC-A personnel used their own financial reports to generate the schedule provided to support the assertion, which resulted in $198.8 million in variances between the financial schedule and the supporting schedule: $35.1 million variance in reported obligations and $163.7 million variance in reported disbursements.

Cost Transfers and Accounting Adjustments

NTM-A/CSTC-A personnel initiated cost transfers[5] and accounting adjustments to create $36.2 million in unsupported disbursements and $43.0 million in unsupported obligations in the ASFF, as of March 31, 2013. During the reporting period, NTM-A/CSTC-A executed obligations and disbursements using U.S.-appropriated funds[6] and then reimbursed these funds

[4] The $35.1 million obligation variance is the sum of the absolute values of the obligation variances found. The absolute value is the magnitude of a real number without regard to its sign.

[5] A cost transfer is the movement of costs between different accounts that affect the commitment, obligation, accrual, and disbursement of those accounts and the related funds.

[6] Within the ASFF appropriation, DoD accounts for NATO contributed funds in one budget sub-activity group and the U.S.-appropriated funds in a separate budget sub-activity group.

with NATO contributions by initiating cost transfers and accounting adjustments. NTM-A/CSTC-A could not provide evidence of a valid obligation as defined by section 1501, title 31, United States Code (31 U.S.C. §1501 [2013])[7] for the obligations recorded under the contribution fund. Because NTM-A/CSTC-A had already received the goods and services under the U.S.-appropriated fund, they did not have evidence supporting the obligations and the subsequent disbursements recorded under the contribution fund.

For example, donors agreed to provide contributions totaling $18.0 million, which went toward a bulk-fuel project. The contributions for this project were received in February 2012. However, NTM-A/CSTC-A had already executed the obligations and disbursements for this bulk-fuel project between August 2011 and April 2012, using U.S.-appropriated funds. Therefore, in June 2012, when NTM-A/CSTC-A received the contributions from U.S. Army Central (ARCENT), they created an obligation in the contribution fund to reimburse the U.S.-appropriated fund for the bulk fuel already provided. Because NTM-A/CSTC-A did not issue a contract, order, services, or an agreement for goods or services, as defined by 31 U.S.C. §1501 (2013), this was not a valid obligation and was considered unsupported.

In addition, as part of the bulk-fuel project, NTM-A/CSTC-A personnel initiated a $6.3 million obligation in the contribution fund as an accounting adjustment but did not use the obligation to reimburse the U.S.-appropriated fund. Because the obligation was created without any documentation to support it, as defined by 31 U.S.C. §1501 (2013), it was not a valid obligation and was considered unsupported. During a visit to Camp Eggers, Afghanistan, in May 2013, the audit team informed NTM-A, NATO Financial Controller (NATO FINCON), personnel of this outstanding adjustment. After the site visit, NATO FINCON personnel reallocated the $6.3 million and put it to use before it could expire.

Expired Obligations

For 3 of the 32 sampled projects, NTM-A/CSTC-A overstated their FY 2010 obligations, totaling $114.4 million, by $5.9 million. Specifically, NTM-A/CSTC-A reported $1.8 million in expired obligations held by the U.S. Army Corps of Engineers (USACE) and $4.1 million in expired obligations held by the Defense Security Cooperation Agency (DSCA) that should have been deobligated before expiration.

- NTM-A/CSTC-A used DD Form 448, "Military Interdepartmental Purchase Request," to request that USACE execute construction projects. In April 2010, NTM-A/CSTC-A requested that USACE build an engineering school using FY 2010 NATO ANA Trust

[7] Section 1501, title 31, United States Code (2013) states an amount should be recorded as an obligation of the U.S. Government only when supported by documentary evidence of contract, order, services, or an agreement for goods or services.

Fund contributions for 1 of the 32 sampled projects. However, as of August 2013, USACE still reported $1.8 million of these funds, which expired September 30, 2011, as available for obligation.

- In addition, for 2 of the 32 sampled projects, NTM-A/CSTC-A transferred $8.3 million in FY 2010 funding to DSCA on a Standard Form 1081, "Voucher and Schedule of Withdrawals and Credits," which created an obligation and disbursement in the accounting records for the NATO ANA Trust Fund contributions. However, DSCA's accounting system as of June 2013 showed that $4.1 million remained unobligated, even though the funds expired September 30, 2011.

Although NTM-A/CSTC-A provided these funds to USACE and DSCA, NTM-A/CSTC-A should have had financial reporting processes in place to ensure that the accounting records accurately reflected the status of these funds.

Documentation of Donor-Country Requirements

For 1 of the 32 projects reviewed, NTM-A/CSTC-A could not provide hard copy documentation supporting that they received approval from Australian officials to redirect $36.7 million in donations to a similar project in a different province of Afghanistan. The ANA Trust Fund manager for NATO FINCON stated he received verbal approval from the Australian government. However, OUSD(C)/CFO and NTM-A/CSTC-A could not provide documentation supporting approval to change the caveat[8] for the Australian contribution. Although NTM-A's standard operating procedures (SOPs) address donor-nation caveats, they do not provide a process for obtaining and documenting caveat changes of donor-nation funds.

Need for a Program Management Structure

OUSD(C)/CFO and NTM-A/CSTC-A did not have adequate internal controls over the financial reporting for $520.0 million of NATO ANA Trust Fund contributions to the ASFF. This occurred because OUSD(C)/CFO, in coordination with NTM-A/CSTC-A, did not establish an effective NATO ANA Trust Fund program management structure ensuring program governance, assignment of responsibilities, and the development of sustainable processes and procedures for effective management and execution of the financial reporting of NATO ANA Trust Fund contributions. Specifically, the program management structure over the financial reporting of the NATO ANA Trust Fund did not:

- assign and define responsibilities of other executing organizations, as necessary for the management and execution of the financial reporting;

[8] A caveat is the formal notice filed by donating nations limiting the use of the funds to specified purposes.

- develop standard operating procedures detailing management and execution of financial reporting;
- identify requirements for financial reports ensuring compliance with the terms and conditions of the memorandum of understanding governing the contributions to the NATO ANA Trust Fund; or
- identify appropriate sources of information to build the financial reports, including necessary accounting data and hard copy documentation related to the collections, obligations, and expenditures by project of the NATO ANA Trust Fund contributions.

To build accurate and supported financial reports, OUSD(C)/CFO, in coordination with NTM-A/CSTC-A, requires accounting data and source documentation from multiple DoD agencies. This includes, but is not limited to, the Defense Finance and Accounting Service (DFAS), USACE, and DSCA. In response to concerns expressed by the audit team about the lack of supporting documentation, OUSD(C)/CFO, in conjunction with NTM-A/CSTC-A and DFAS, developed a working group that meets weekly to focus on the development and sustainment of a supportable process for tracking NATO ANA Trust Fund collections and disbursements through to mandated financial reports. This working group consists of personnel from OUSD(C)/CFO, DFAS, NTM-A/CSTC-A, ARCENT, USACE, and DSCA. Communication among working-group members has led to better data sharing and should result in a more sustainable process for future reporting requirements. However, additional work is necessary to ensure obligations and costs are in compliance with applicable laws; funds are safeguarded against waste, loss, unauthorized use, or misappropriation; and revenues and expenditures are properly recorded, accounted for, and reconciled.

OUSD(C)/CFO, in coordination with NTM-A/CSTC-A, did not develop formal processes and procedures identifying responsibilities, specific data elements, and evidence needed to support the financial reporting of the NATO ANA Trust Fund execution. At a minimum, these processes and procedures should include the reconciliation of the project-level supporting schedule to the accounting data on a quarterly basis. OUSD(C)/CFO should formalize and fully document its financial reporting processes with these agencies and develop a memorandum of understanding (MOU) that assigns responsibilities in the NATO ANA Trust Fund financial reporting process. Additionally, OUSD(C)/CFO, in coordination with NTM-A/CSTC-A, should develop overall standard operating procedures that document the entire NATO ANA Trust Fund financial reporting process.

Unreliable Financial Reports

As a result of OUSD(C)/CFO's and NTM-A/CSTC-A's material internal control weaknesses over the financial reporting of the NATO ANA Trust Fund contributions to ASFF, OUSD(C)/CFO and

NTM-A/CSTC-A did not have assurance that $35.1 million of the $331.2 million in obligations and any of the $163.7 million in disbursements in their financial report as of March 31, 2013, were accurate and complete. In addition, the lack of internal controls over the financial reporting process contributed to OUSD(C)/CFO and NTM-A/CSTC-A reporting $43.0 million in unsupported obligations and $36.2 million in unsupported disbursements, and overstating obligations by $5.9 million. The inaccurate reporting of the obligations and disbursements may limit the ability of management and international partners to accurately assess the execution of current contributions, which could have an impact on future contributions.

Management Comments on the Finding and Our Response

The Deputy Comptroller (Program/Budget), OUSD(C)/CFO, responding for the USD(C)/CFO, provided comments on the finding of the draft report. Those comments and our responses are discussed below. For the full text of the Deputy Comptroller's comments, see the Management Comments section of the report.

USD(C)/CFO Comments on Internal Controls

The Deputy Comptroller wanted to re-emphasize that for each of the 32 projects reviewed in the examination, the receipt of funds was accurately recorded and applied toward contracts in accordance with donors' intent.

USD(C)/CFO Comments on Financial Reporting Process

The Deputy Comptroller stated that due to personnel transition in the field, the manual system used to track individual donations by country had not been fully reconciled to include data for 4 projects, totaling $35.1 million. He further stated that, despite the incomplete reconciliation, these projects were being monitored.

In addition, the Deputy Comptroller stated that, while both OUSD(C)/CFO and NTM-A personnel were tracking overall disbursements, project-level disbursing data was not included in the quarterly reports until June 30, 2013. According to the Deputy Comptroller, the tracking and reporting of disbursements at the project level has since been incorporated into the processes and will not be an issue for future reconciliations and reports. Furthermore, the Deputy Comptroller stated that improvements to the accounting system, which will enable a greater degree of project-level data capture and increased data reconciliation processes, will improve the overall accuracy and efficiency of the ANA Trust Fund financial reporting.

USD(C)/CFO Comments on Cost Transfers

The Deputy Comptroller stated that the processing time of the ANA Trust Fund drawdowns led to the use of the cost transfers in some instances. He also stated that, in a few cases, to ensure requirements were fulfilled as quickly as possible, DoD ASFF resources were initially applied toward the project until the contribution was fully processed and received. According to the Deputy Comptroller, the reduced processing time and removal of national caveats through the creation of pre-determined cost categories will prevent the need for cost transfers in the future.

USD(C)/CFO Comments on Expired Obligations

The Deputy Comptroller stated OUSD(C)/CFO and NTM-A personnel worked with DSCA and the individual program management offices personnel to ensure that any residual funds, once the project is completed, are returned and made available for use toward other valid Afghan National Security Forces requirements. He also stated that DSCA personnel recently provided NTM-A personnel with access to their accounting systems to improve visibility and oversight. According to the Deputy Comptroller, these steps will ensure all funds are appropriately applied to the assigned project or realigned against other approved requirements in a timely manner.

Our Response

The Deputy Comptroller (Program/Budget), OUSD(C)/CFO, stated in his response that for each of the 32 projects reviewed for this examination, the receipt of funds was accurately recorded. However, because the examination resulted in a disclaimer of opinion, the auditors could not determine whether the collections, obligations, and disbursements were presented fairly and did not conclude that the receipt of funds was accurately recorded. The auditors did determine that the internal controls within the cash collection process for the NATO contributions received were adequate. The improvements identified should improve the internal controls and processes for recording obligations and disbursements of the NATO contributions. The effectiveness of the implementation will be determined when the next examination is conducted.

Recommendations, Management Comments, and Our Response

Redirected Recommendations

As a result of management comments, we redirected all recommendations reflecting NTM-A/CSTC-A, to reflect only CSTC-A. According to the U.S. Army Commanding General, CSTC-A, the recommendations fall under the responsibility of only CSTC-A.

Recommendation 1

We recommend the Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD, develop a memorandum of understanding with the Commanding General, Combined Security Transition Command–Afghanistan, the Director, Defense Finance and Accounting Service, the Commanding General, U.S. Army Corps of Engineers, and the Director, Defense Security Cooperation Agency, to document each organization's responsibilities in the North Atlantic Treaty Organization Afghan National Army Trust Fund financial reporting process.

USD(C)/CFO Comments

The Deputy Comptroller (Program/Budget), OUSD(C)/CFO, responding for the USD(C)/CFO, agreed with the recommendation and stated that OUSD(C)/CFO personnel will work with counterpart organizations to develop and implement the recommended MOU to formalize the coordination process now underway. OUSD(C)/CFO expects to publish the MOU in April 2014.

CSTC-A Comments

Although not required to comment, the U.S. Army Commanding General, CSTC-A, agreed with the recommendation and stated that a draft MOU was almost completed in December 2013, but, due to the fielding of the General Fund Enterprise Business System, the new accounting and financial management system, in January 2014, the new MOU will not be completed until the system is fielded. Once the system is fielded, CSTC-A, NATO ANA Trust Fund Office, will revise the draft MOU to account for the changes in the financial management system and document the new procedures. CSTC-A personnel, in coordination with OUSD(C)/CFO, NATO, SHAPE, DFAS, and ARCENT personnel, plan to complete the new MOU by March 31, 2014. For the full text of the Commanding General's comments, see the Management Comments section of the report.

DFAS Comments

Although not required to comment, the Deputy Director, DFAS-Indianapolis, responding for the Director, DFAS-Indianapolis, agreed with the recommendation and stated DFAS-Indianapolis personnel are already working closely with other stakeholder organizations to document responsibilities in the financial reporting process. For the full text of the Director's comments, see the Management Comments section of the report.

Our Response

Comments from the Deputy Comptroller addressed all of the specifics of the recommendation, and no additional comments are required.

Recommendation 2

We recommend the Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD, in coordination with Commanding General, Combined Security Transition Command–Afghanistan, develop and implement standard operating procedures documenting the North Atlantic Treaty Organization Afghan National Army Trust Fund financial reporting process, including the reconciliation of the project-level supporting schedule to the accounting data on a quarterly basis.

USD(C)/CFO Comments

The Deputy Comptroller (Program/Budget), OUSD(C)/CFO, responding for the USD(C)/CFO, agreed with the recommendation and stated that one way to address the constant turnover associated with a contingency operation is to have well-defined and achievable processes in place. He stated that, in conjunction with finalizing the MOU, OUSD(C)/CFO personnel will develop a SOP as a supplement to the MOU currently in development. OUSD(C)/CFO expects to publish the new SOP in April 2014.

CSTC-A Comments

Although not required to comment, the U.S. Army Commanding General, CSTC-A, agreed with the recommendation and stated that the best way to address the constant turnover associated with a contingency operation is to have simple and codified processes in place. He stated that once OUSD(C)/CFO completes the interagency MOU, and NATO, SHAPE and the United States finalize the new tri-lateral NATO ANA Trust Fund MOU, the NATO ANA Trust Fund Office will complete a new SOP as a supplement to the two MOUs in development. The SOP will incorporate all the specified and implied tasks, processes, and procedures, and include the reconciliation of the project-level supporting schedule to the accounting data on a quarterly basis. The Commanding General stated the NATO ANA Trust Fund Office will complete the SOP by April 15, 2014.

Our Response

Comments from the Deputy Comptroller addressed all of the specifics of the recommendation, and no additional comments are required.

Compliance With Laws and Regulations

In September 2009, the United States, as represented by the DoD, entered into a "Memorandum of Understanding Among the United States of America, and North Atlantic Treaty Organization, and Supreme Headquarters Allied Powers Europe [SHAPE] Regarding Management and Administration of Trust Fund Donations For Support and Sustainment of the Afghanistan National Army," (MOU) defining the organizational and management processes established between NATO and the United States. The MOU defines the roles and responsibilities of SHAPE and the United States in managing and executing the funds transferred from the NATO ANA Trust Fund to the ASFF appropriation, and it specifies the arrangements for funds transfer, contracting, monitoring, evaluation, reporting, accounting, and auditing.

In addition, the MOU states that execution of the NATO ANA Trust Fund must adhere to the national caveats under which the funds were donated. In reviewing the 32 projects, we did not identify any instances where the donor country contributions were applied to contracts that conflicted with the donors' intent.

The NATO ANA Trust Fund contributions were transferred into the ASFF based on the U.S. Appropriations Act for FYs 2010, 2011, and 2012. For example, Public Law 112-74, "Consolidated Appropriations Act, 2012," December 23, 2011, stated that contributions of funds for the purposes provided herein from any person, foreign government, or international organization may be credited to the ASFF and used for such purposes.

Noncompliance With Memorandum of Understanding

OUSD(C)/CFO and NTM-A/CSTC-A did not always comply with the MOU when executing projects funded by the NATO ANA Trust Fund. For 6 of the 32 projects reviewed, NTM-A/CSTC-A personnel did not adhere to the MOU when they obligated $19.1 million before receiving the donor funds from SHAPE. The MOU, Section 6-2, states that U.S. authorities are not to enter into obligations until the funds are received into U.S. accounts (ASFF). The Director, NATO FINCON, stated that due to the length of time to receive funds from SHAPE, and mission requirements that required immediate action, NATO FINCON used U.S.-appropriated funds until the NATO ANA Trust Fund contributions were available. To compensate for the time delays, NATO FINCON used a system of cost transfers and accounting adjustments to reimburse the U.S. appropriations with contribution funds. As a result, NTM-A/CSTC-A did not comply with the MOU in executing $19.1 million in funds. To ensure compliance with the MOU, OUSD(C)/CFO, in coordination with NTM-A/CSTC-A, should improve processes to streamline the receipt of funds so the cost transfer and accounting adjustment processes are not necessary. In addition, OUSD(C)/CFO, in coordination with NTM-A/CSTC-A, should implement a process to notify SHAPE when project execution needs to begin prior to receipt of NATO contributions in order to meet mission requirements.

Noncompliance With Public Law 112-74

OUSD(C)/CFO did not comply with Public Law 112-74 when executing projects funded by the NATO ANA Trust Fund. In September 2013, the DoD returned $145.6 million in FY 2012 NATO ANA Trust Fund contributions to SHAPE without notifying U.S. congressional defense committees, as required by Public Law 112-74. Public Law 112-74 states that the Secretary of Defense must notify congressional defense committees in writing of the receipt and obligation of contributions to the ASFF and the transfer of funds between budget sub-activity groups in excess of $20 million. In addition, under this public law these funds were available for obligation until September 30, 2013. NTM-A/CSTC-A personnel determined that they would not be able to obligate the $145.6 million in funds prior to September 30, 2013. Therefore, NTM-A/CSTC-A took action to return the funds to SHAPE so the funds would be available for use in FY 2014 or future years. To complete the return, ARCENT personnel transferred the $145.6 million from the NATO contribution fund budget sub-activity group within the ASFF appropriation to a new budget sub-activity group. Upon completion of this transfer, NTM-A/CSTC-A personnel certified vouchers that authorized DFAS to return the funds to SHAPE and the funds were subsequently disbursed by DFAS. However, the OUSD(C)/CFO did not notify Congress that it was transferring $145.6 million between budget sub-activity groups or that it was disbursing the unused contributed funds to SHAPE. By not notifying the congressional defense committees, OUSD(C)/CFO did not comply with public law and limited Congress' ability to make informed decisions about the projects funded under the ASFF.

After the review, the audit team spoke with OUSD(C)/CFO personnel to re-emphasize the need to notify Congress of the return of funds. In November 2013, OUSD(C)/CFO notified Congress of the return of the $145.6 million in funds. As a result, we are not making a recommendation regarding congressional notification.

Disclosure of Subsequent Event

NTM-A/CSTC-A's financial schedule did not disclose that a material portion of the reported receipts, totaling $145.6 million, was scheduled to be returned to NATO in less than 60 days. According to OUSD(C)/CFO personnel, as of March 31, 2013, NTM-A/CSTC-A personnel were aware of available funds, but did not know the total amount of funds that needed to be returned to SHAPE. However, NTM-A/CSTC-A personnel did know of the $145.6 million in funds when they issued their financial schedule of funds received, obligated, and disbursed to NATO and SHAPE on August 4, 2013, and when OUSD(C)/CFO issued the assertion package to the DoD Office of the Inspector General. Although OUSD(C)/CFO and NTM-A/CSTC-A personnel knew that management was preparing to return

$145.6 million of the reported receipts, OUSD(C)/CFO and NTM-A/CSTC-A did not disclose the return on their financial schedule or their assertion because they did not agree that disclosure of the returned funds was necessary.

The $145.6 million in returned funds was material to the NATO ANA Trust Fund contributions received, as it represented 43 percent of the $341.0 million in FY 2012 funds received and 28 percent of the $520.0 million in FY 2010 through FY 2012 funds received. As a result of the materiality of the returned funds and the potential consequence that returning these funds may have on future contributions of the contributing nations, OUSD(C)/CFO and NTM-A/CSTC-A should disclose the return of these funds in the financial schedule.[9] Without this disclosure, readers of the financial schedule have limited knowledge of how effectively the NATO ANA Trust Fund contributions were executed and a limited basis for deciding whether to make future contributions. In the third-quarter report to NATO, September 30, 2013, OUSD(C)/CFO and NTM-A/CSTC-A disclosed the return of $145.6 million in funds. To ensure that NATO and international partners relying on the financial schedule can make informed decisions and judgments about their contributions, OUSD(C)/CFO, in coordination with NTM-A/CSTC-A, should make a similar disclosure of the return of the $145.6 million in funds on their published financial schedule for the period ending March 31, 2013.

Management Comments on the Finding and Our Response

DFAS Comments

Although not required to comment, the Deputy Director, DFAS-Indianapolis, responding for the Director, DFAS-Indianapolis, provided comments on the finding. He requested that the report be adjusted to reflect that NTM-A/CSTC-A personnel certified vouchers authorizing DFAS to return funds to SHAPE and that DFAS subsequently disbursed the funds.

Our Response

The audit team agreed with the requested change and updated the report accordingly.

[9] As defined by Statement of Federal Financial Accounting Standards 39, "Subsequent Events: Codification of Accounting and Financial Reporting Standards Contained in the AICPA Statements on Auditing Standards," August 4, 2010, a subsequent event is an event or transaction occurring after the end of the reporting period but before the financial report is issued. A subsequent event should be disclosed if it will affect the judgments and decisions of those relying on the financial report.

Recommendations, Management Comments, and Our Response

Recommendation 3

We recommend the Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD, in coordination with the Commanding General, Combined Security Transition Command–Afghanistan:

a. **Improve processes to streamline the receipt of funds into the contribution fund so the cost transfer and accounting adjustment processes are not necessary.**

USD(C)/CFO Comments

The Deputy Comptroller (Program/Budget), OUSD(C)/CFO, responding for the USD(C)/CFO, agreed with the recommendation and stated that OUSD(C)/CFO and NTM-A/CSTC-A have undertaken an arduous review of processes used to request, receive, and apply contributions. He stated that negotiations were underway to implement future international support through five pre-agreed funding categories. The Deputy Comptroller added that this revised approach should reduce the time from requirement validation to contract award. He also stated that OUSD(C)/CFO has modified its process for funds notification and transfer, resulting in nearly 65-percent reduction in processing time.

CSTC-A Comments

Although not required to comment, the U.S. Army Commanding General, CSTC-A, agreed with the recommendation and stated that, due to the nature and complexity of the drawdown process, CSTC-A will not be able to completely eliminate accounting adjustments, especially given the actual price fluctuations in the contracting process. He also stated that delays outside of CSTC-A's control resulting from the national caveat and re-caveat issues would prevent this from being fully realized. The Commanding General added that OUSD(C)/CFO, CSTC-A, and NATO ANA Trust Fund Office personnel have worked extensively to modify processes, resulting in a 65-percent decrease in processing time of drawdowns that has greatly reduced the number of accounting adjustments in the last 6 months.

Our Response

Comments from the Deputy Comptroller addressed all of the specifics of the recommendation, and no additional comments are required.

b. **Implement a process to notify the Supreme Headquarters Allied Powers Europe when project execution needs to begin before receiving North Atlantic Treaty Organization contributions, in order to meet mission requirements.**

USD(C)/CFO Comments

The Deputy Comptroller (Program/Budget), OUSD(C)/CFO, responding for the USD(C)/CFO, agreed with the recommendation, stating that, along with NTM-A/CSTC-A, OUSD(C)/CFO is developing a new Annual Implementation Plan, which will identify when funds are needed for contracting. This, along with the use of the five pre-agreed funding categories and the quarterly reports, should provide visibility to contributors of the projects.

CSTC-A Comments

Although not required to comment, the U.S. Army Commanding General, CSTC-A, agreed with the recommendation and stated that, along with OUSD(C)/CFO, CSTC-A is working on a new report called the Annual Implementation Plan, which will identify when the NATO ANA Trust Fund Office needs funds from SHAPE for contracting. He stated that this plan, due December 1 of each year, along with quarterly reports, will provide visibility to SHAPE in a timely manner.

Our Response

Comments from the Deputy Comptroller addressed all of the specifics of the recommendation, and no additional comments are required.

c. **Disclose the return of the $145.6 million in funds on the published financial schedule for the period ending March 31, 2013, to ensure that the North Atlantic Treaty Organization and international partners relying on the financial report can make informed decisions and judgments about their contributions.**

USD(C)/CFO Comments

The Deputy Comptroller (Program/Budget), OUSD(C)/CFO, responding for the USD(C)/CFO, partially agreed with the recommendation and stated that NTM-A personnel have fully disclosed the return of the funds with international partners at numerous meetings, and the return of the $145.6 million will again be highlighted in the 2013 Annual Report. OUSD(C)/CFO personnel believe no further action is required, as the return of funds has been fully communicated.

In addition, the Deputy Comptroller stated that to address this issue, and related congressional notification issues discussed in the report, OUSD(C)/CFO personnel sought and received legislative relief from the 2-year limitation on the availability of ANA Trust Fund

contributions administered through the ASFF. He stated that the Trust Fund contributions to the ASFF in FY 2013 and beyond are no longer subject to expiration and are now administered as "no-year" funds within the DoD accounting system.

CSTC-A Comments

Although not required to comment, the U.S. Army Commanding General, CSTC-A, disagreed with the recommendation and stated the return was disclosed in the September 2013 NATO ANA Trust Fund Quarterly Report to the donor nations, has been briefed during meetings in theater, and will be shown in the December 2013 NATO ANA Trust Fund Annual Report. He stated that, although the return of funds significantly changed the 2012 fiscal picture, the timing of the event and the fact that the nations have already been notified of the return make the recommendation unnecessary. The Commanding General believes the international community has been properly and fully notified without republication of the March 2013 financial statement.

Our Response

While the Deputy Comptroller partially agreed with the recommendation, his comments addressed all of the specifics of the recommendation, and no additional comments are required. OUSD(C)/CFO personnel informed us that they do not plan to publish a separate final financial schedule with the audit opinion. The financial schedule is included in the Attachment of this report and does not have the disclosure.

Attachment

Deputy Comptroller Assertion and NTM-A/CSTC-A Financial Schedule

OFFICE OF THE UNDER SECRETARY OF DEFENSE
1100 DEFENSE PENTAGON
WASHINGTON, DC 20301-1100

COMPTROLLER
(Program/Budget)

AUG 13 2013

MEMORANDUM FOR DEPARTMENT OF DEFENSE INSPECTOR GENERAL (DoDIG)

SUBJECT: Assertion for the Examination of the NATO Afghanistan National Army (ANA) Trust Fund

In accordance with the August 2009 Memorandum of Understanding between the United States of America (Department of Defense), the North Atlantic Treaty Organization (NATO), and the Supreme Headquarters Allied Powers Europe (SHAPE), the Office of the Under Secretary of Defense (Comptroller) requests an examination of donations from the NATO Afghanistan National Army (ANA) Trust Fund that were added into the Afghanistan Security Forces Fund (ASFF) appropriation.

This examination will look at all projects (Sustainment, Literacy and Professional Military Education (LPME), and Non-Recurring) that were funded from NATO ANA Trust Fund donations received into ASFF in FY 2012 or earlier. This encompasses the ASFF appropriation in FY2010/11, FY2012/13, and the X-year accounts.

We assert the receipts and expenditures reported in the Financial Statement of the Trust Fund Donations are presented fairly. The accuracy and completeness of the Financial Statement can be verified by reviewing the schedules of supporting data as of March 31, 2013.

John Roth
Deputy Comptroller

Deputy Comptroller Assertion and NTM-A/CSTC-A Financial Schedule (cont'd)

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

NTM-A-NATO FINCON 4 August 2013

MEMORANDUM FOR North Atlantic Treaty Organization (NATO) and Supreme Headquarters Allied Powers Europe (SHAPE)

SUBJECT: Financial Statement of Trust Fund Donations in Support and Sustainment of the Afghanistan National Army (ANA)

1. I hereby certify the financial status (receipt, obligation and disbursement) of the NATO ANA Trust Fund donations added to the U.S. Government Afghanistan Security Forces Fund or the Defense Security Cooperation Agency (DSCA) Foreign Military Sales (FMS) Trust through 31 March 2013:

a. Fiscal Year 2010:

Received	Obligated	Disbursed	Available
$115.99M	$114.42M	$106.26M	$1.58M

b. Fiscal Year 10X-11X:

Received	Obligated	Disbursed	Available
$63.12M	$45.21M	$39.50M	$17.90M

c. Fiscal Year 2012:

Received	Obligated	Disbursed	Available
$340.88M	$171.56M	$17.93M	$169.31M

2. The point of contact for this financial report is the undersigned at [redacted], [redacted].

JAMES D. BURDICK
COL, USA
Financial Controller
Director, NATO FINCON
NATO Training Mission – Afghanistan (NTM-A)
Combined Security Transition Command – Afghanistan (CSTC-A)

Management Comments

Office of the Under Secretary of Defense (Comptroller)/ Chief Financial Officer, DoD

FEB 21 2014

OFFICE OF THE UNDER SECRETARY OF DEFENSE
1100 DEFENSE PENTAGON
WASHINGTON, DC 20301-1100

COMPTROLLER

(Program/Budget)

MEMORANDUM FOR ASSISTANT INSPECTOR GENERAL FOR AUDIT, DEPARTMENT OF DEFENSE INSPECTOR GENERAL

SUBJECT: Response to the Department of Defense Inspector General Examination

Reference: DoDIG Report, "Independent Auditor's Report on Examination of DoD Execution of North Atlantic Treaty Organization-Contributing Countries' Donations to Afghan National Army Trust Fund" (Project No. D2013-D000FL-0056.000)

I am responding to your request to review and provide comments to the referenced draft report. The Office of the Secretary of Defense (Comptroller) (OUSD(C)) concurs with two of the three recommendations and partially concurs with the third. Attached is the OUSD(C) response to the recommendations made in the draft report. Although the draft report provides an overall disclaimer, the OUSD(C) believes it is important to re-emphasize that for each of the 32 projects reviewed for this examination, the receipt of funds was accurately recorded and applied toward contracts in accordance with donors' intent.

Should you have any further questions or comments, the OUSD(C) point of contact for this action is [redacted] he can be reached at [redacted] or via electronic mail, [redacted]

John Roth
Deputy Comptroller

Attachment:
As stated

Office of the Under Secretary of Defense (Comptroller)/ Chief Financial Officer, DoD (cont'd)

DoDIG Project No. D2013-D000FL-0056.000
Examination of DoD Execution of North Atlantic Treaty Organization-Contributing Countries' Donations to Afghan National Army Trust Fund

Office of the Under Secretary of Defense (Comptroller)

Background.

Since 2010, the United States Department of Defense (DOD) has administered contributions from the North Atlantic Treaty Organization (NATO) Afghan National Army (ANA) Trust Fund for support and sustainment of the Afghan National Army. Execution of the ANA Trust Fund through the DoD's Afghanistan Security Forces Fund has enabled the International Security Assistance Force (ISAF) and the Combined Security Transition Command-Afghanistan (CSTC-A) to effectively source Coalition-validated requirements for the ANA. This joint approach has helped provide clarity and consistency of message for the Government of the Islamic Republic of Afghanistan regarding Coalition efforts to develop the Afghan National Security Forces (ANSF).

Internal Controls:

The draft Auditor's Report identifies areas for improved internal financial reporting controls. The Office of the Under Secretary of Defense (Comptroller) (OUSD(C)), working with its counterpart organizations, will take all necessary measures to build upon the successful implementation of ANA Trust Fund contributions and improve the financial controls for reporting the transfer and execution of Trust Fund contributions in support of the ANA.

To maintain the level of detail necessary to ensure transparency of program execution for contributor nations, it has been necessary for the NATO Training Mission – Afghanistan (NTM-A) to manually track individual donations by country – with project descriptors and national caveats – as they are applied toward individual projects. This tracking initiative is in addition to the automated monthly 1002 Accounting Report and allows for project-level data tracking the automated system could not accommodate. In the data provided to the audit team, the manual system had – due to personnel transition in the field – not been fully reconciled to include the data of four projects totaling $35.1 million. Despite the incomplete reconciliation, these projects were in fact being monitored, with project execution proceeding as planned. Funding for these projects will continue to be reported in quarterly reports until complete.

In October 2013, the U.S. Army introduced a new service-wide accounting system, which will enable a greater degree of project-level data capture. While NTM-A will continue manual tracking, the new accounting system has the capability to track individual country donations and individual projects. The NTM-A team will reconcile the manual and automated systems continuously. To implement this new accounting system, continue the manual tracking and reconciliation, and meet all of the nationally requested reports, the OUSD(C) fully supports the staffing requests for 12 NATO personnel.

1

Office of the Under Secretary of Defense (Comptroller)/ Chief Financial Officer, DoD (cont'd)

While both the OUSD(C) and the NTM-A were tracking overall disbursements, project-level disbursing data was not included in the quarterly reports until June 30, 2013. This audit required a full review of receipts, obligations and disbursements at the project level so the March 31, 2013, quarterly report became a main source of information for the DoDIG auditing team. The tracking and reporting of disbursements at the project level has since been incorporated into our processes and will not be an issue for future reconciliations and reports. The OUSD(C) believes the improvements to the accounting system and increased data reconciliation processes will improve the overall accuracy and efficiency of the ANA Trust Fund financial reporting, preventing reporting errors between summary and project-level data.

With regard to the issue of cost transfers identified in the draft report, the processing time of the ANA Trust Fund drawdowns led to the use of cost transfers in some instances. In a few cases, once a country agreed to fund an ANSF requirement or project, DoD ASFF resources were initially applied toward the project until the contribution was fully processed and received. This process was used to ensure the requirement was fulfilled as quickly as possible. National caveats and re-caveats were also a factor in the slow drawdown times resulting in cost transfers. We believe the reduced processing time and removal of national caveats through the creation of pre-determined cost categories will prevent the need for cost transfers in the future.

The draft report states that three of the 32 sampled projects were overstated, with a total of $5.9 million in unobligated funds which expired on September 30, 2011. Depending on the type of project, and to manage some of the uncertainty in a contingency operation, it is common practice to maintain a small contingency of funds for potential cost overruns prior to project completion or delivery. The OUSD(C) and NTM-A work with the Defense Security Cooperation Agency (DSCA) and the individual Program Management Offices to ensure any residual funds, once the project is completed, are returned and made available, after full coordination with the contributing nation, for use toward other valid ANSF requirements. The DSCA recently provided NTM-A with access to their accounting systems to improve visibility and oversight of requirements being met by contracting actions here in the United States. With these established and utilized procedures now in place, the OUSD(C) and the NTM-A, along with the DSCA, can ensure all funds are appropriately applied toward the assigned project or realigned against other approved requirements in a timely manner.

Recommendation #1. We recommend the Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD, develop a memorandum of understanding with the Commanding General, North Atlantic Treaty Organization (NATO) Training Mission-Afghanistan (NTM-A)/Combined Security Transition Command-Afghanistan (CSTC-A), the Director, Defense Finance and Accounting Service (DFAS), the commanding General, U.S. Army Corps of Engineers (USACE), and the Director, Defense Security Cooperation Agency (DSCA) to document each organization's responsibilities in the NATO Afghanistan National Army (ANA) Trust Fund financial reporting process.

Management Response: Concur. Since May 2013, representatives from OUSD(C), NTM-A, DFAS, USACE, and the U.S. Army Central Command have conducted weekly teleconferences to support audit requirements and coordinate support for ongoing activities. The structure provided by the standing teleconferences has improved interaction, coordination and support.

2

Office of the Under Secretary of Defense (Comptroller)/ Chief Financial Officer, DoD (cont'd)

The OUSD(C) will work with counterpart organizations to develop and implement the DoD IG-recommended memorandum of understanding (MOU) to formalize the coordination process that is now underway. The OUSD(C) expects to publish the MOU in April 2014.

Recommendation #2. We recommend the Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD, in coordination with the Commanding General, North Atlantic Treaty Organization (NATO) Training Mission-Afghanistan (NTM-A)/Combined Security Transition Command-Afghanistan (CSTC-A), develop and implement standard operating procedures documenting the NATO ANA Trust Fund financial reporting process, including the reconciliation of the project level supporting schedule to the accounting data on a quarterly basis.

Management Response: Concur. We recognize that one way to address the constant turnover associated with a contingency operation is to have well-defined and achievable processes in place. In conjunction with finalizing the MOU with the organizations specified in recommendation #1, the OUSD(C) will develop a standard operating procedure (SOP) as a supplement to the MOU that is currently in development. The OUSD(C) expects to publish the new SOP in April 2014.

Compliance with Laws and Regulations:

The draft report discussion regarding compliance with Public Law 112-74 is an issue internal to the DoD accounting system and U.S. congressional reporting requirements. The law requires notification to the congressional defense committees if more than $20 million of funding is moved from one budget sub-activity group accounting line to another. To address the emergent need to return $145.6 million to the Trust Fund for future implementation, the DoD accounting system did not allow for a negative receipt of funds action, which would have reduced the total available, making future accounting easier as if the funds were never received.

For these technical reasons, the funds were returned as the submission of an electronic funds transfer, which appears as an obligation and disbursement. To maintain an accurate picture of what funding actually went toward ANSF requirements and was not part of the return obligation, a new budget sub-activity group accounting line was established. The funds being returned ($145.6 million) were then realigned to this new accounting line and then returned to the ANA Trust Fund. Because this was a refund of a donation and not truly an obligation, we did not initially consider that this required congressional notification. Following additional consultation with the audit team, the OUSD(C) and the Office of General Counsel agreed that notification was required. We have since notified the congressional defense committees of this return, as noted in the draft report.

Recommendation #3. We recommend the Under Secretary of Defense (Comptroller) (OSUD(C))/Chief Financial Officer (CFO), DoD in coordination with the Commanding General, North Atlantic Treaty Organization (NATO) Training Mission-Afghanistan (NTM-A)/Combined Security Transition Command-Afghanistan (CSTC-A):

3.a. Improve processes to streamline the receipt of funds into the contribution fund so the cost transfer and accounting adjustment processes are not necessary.

3

Office of the Under Secretary of Defense (Comptroller)/ Chief Financial Officer, DoD (cont'd)

Management Response: Concur. The OUSD(C) and NTM-A /CSTC-A have undertaken an arduous review of processes used to request, receive and apply contributions. Some of the delay was a result of national caveat and re-caveat issues. Negotiations are underway to implement future international support for the ANSF through five pre-agreed funding categories – Salaries; Individual Support; Training; Infrastructure Sustainment; and Equipment Sustainment. We believe this revised approach for sourcing Afghan requirements will also reduce the time from requirement validation to contract award. The OUSD(C) has also modified its process for funds notification and transfer, resulting in a nearly 65 percent reduction in processing time.

3.b. Implement a process to notify the Supreme Headquarters Allied Powers Europe when project execution needs to begin before receiving North Atlantic Treaty Organization (NATO) contributions, in order to meet mission requirements.

Management Response: Concur. Along with NTM-A/CSTC-A, the OUSD(C) staff is developing a new annual Implementation Plan, which will identify when funds are needed for contracting. This new plan, use of the five contribution categories listed above, and the continued issuance of quarterly reports should provide contributors with the visibility necessary to initiate and track the progress of projects they are supporting.

3.c. Disclose the return of the $145.6 million in funds on the published financial schedule for the period ending March 31, 2013, to ensure that the North Atlantic Treaty Organization and international partners relying on the financial report are able to make informed decisions and judgments about their contributions.

Management Response: Partial Concur. In 2010, the Department of Defense received legislative authority enabling DoD to receive and process ANA Trust Fund contributions in support of the Afghan Security Forces within DoD's accounting system. Once received, contributed funds would be subject to the restrictions applicable to the congressionally appropriated ASFF. The United States established ASFF as a special appropriation to support the manning, equipping and sustainment of the ANSF. These funds are available for 2 fiscal years. In fiscal year 2011, and then again in 2013 and beyond, the United States Congress amended the authority so that contributions were not subject to the ASFF 2-year period of availability, but would instead be available until expended. For fiscal years 2010 and 2012, this period of availability waiver language was not included. Therefore, contributions received in 2010 and 2012 could only be applied toward new requirements for 2 years, or until September 30, 2011 and September 30, 2013 respectively.

The original financial schedule, included in the draft report, shows the funding status as of March 31, 2013. This examination was requested to review the execution of funds and processes being used as of March 31, 2013. At that time, the NTM-A was continuing to make every effort to apply the 2012 funds on hand toward valid ANSF requirements. Delays in drawdowns, processing, re-caveats and changes in Afghan requirements were, however, starting to make some of the funding appear to be unexecutable.

4

Office of the Under Secretary of Defense (Comptroller)/ Chief Financial Officer, DoD (cont'd)

In May of 2013, the OUSD(C), NTM-A, and others began to explore the possibility of returning any 2012 contributions that could not be applied toward requirements before September 30, 2013, when the funds would expire. In August, following discussions with the Defense Finance and Accounting Service and the DoD Office of General Counsel, a process was identified to return expiring contributions. In September, $145.6 million was returned to the ANA Trust Fund administered by the Supreme Headquarters Allied Powers Europe. The funds were returned with the intent to redraw the funds in support of other validated Afghan requirements, as approved by the contributing nation and the September 2013 quarterly report to the nations clearly showed this return.

The NTM-A team has fully disclosed the return of the funds with our international partners at numerous meetings and engagements over the last several months, and the return of the $145.6 million will again be highlighted in the 2013 Annual Report. The OUSD(C) believes no further action is required as the funds return has been fully notified.

To address this issue, and the related congressional notification issue discussed above, the OUSD(C) sought and received legislative relief for the 2-year limitation on the availability of ANA Trust Fund contributions administered through the ASFF. Trust Fund contributions received into the ASFF in Fiscal Year 2013 and beyond are no longer subject to expiration and are now administered as "no-year" funds within the DoD accounting system.

5

Combined Security Transition Command-Afghanistan

Final Report Reference

HEADQUARTERS
COMBINED SECURITY TRANSITION COMMAND - AFGHANISTAN
MINISTERIAL ADVISORY GROUP
KABUL, AFGHANISTAN
APO AE 09356

REPLY TO
ATTENTION OF
CSTC-A

18 FEB 2014

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: CSTC-A Draft Report Response to DoD IG D2013-D000FL-0056.000, "Examination of DoD Execution of NATO Donations to the ANA Trust Fund" (DoD IG Draft Report 2013-0056).

REFERENCE: Draft Report, dated 04 February 2014, Office of the Department of Defense-Inspector General (DoD IG).

1. The purpose of this memorandum is to provide draft responses on the DoD IG D2013-D000FL-0056.000 draft report, dated 4 FEB 14.

2. CSTC-A appreciates the DoDIG's finding that after sampling $414.2 million of $520 million, the DoDIG determined there were adequate internal controls for NATO contributions received. CSTC-A also agrees with and is implementing all but one of the recommendations for improving internal controls and financial reporting processes.

3. With the DoDIG's assistance, we will be able to continue assuring international donors that their contributions are used effectively for their intended purposes. CSTC-A remains committed to being a good steward of resources.

4. For clarification purposes, although the comments within the report were directed to NATO Training Mission-Afghanistan (NTM-A) / Combined Security Transition Command-Afghanistan (CSTC-A); due to reorganization, the recommendations fall under the responsibility of the Combined Security Transition Command-Afghanistan (CSTC-A). Therefore, the attached responses to the recommendations are submitted by CSTC-A.

5. Point of contact for this action is [redacted] at DSN [redacted], or via e-mail at [redacted]

KEVIN R. WENDEL
Major General, US Army
Commanding General

Enclosure:

Revised Recommendations 1, 2, 3.a, 3.b, 3.c.

Combined Security Transition Command-Afghanistan (cont'd)

CSTC-A DRAFT REPORT RESPONSE
"Examination of DoD Execution of NATO Donations to the ANA Trust Fund"
(DoD IG Draft Report 2013-0056)

1. Recommendation 1:
Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD, develop a memorandum of understanding with the Commanding General, North Atlantic Treaty Organization Training Mission–Afghanistan/Combined Security Transition Command–Afghanistan, the Director, Defense Finance and Accounting Service, the Commanding General, U.S. Army Corps of Engineers, and the Director, Defense Security Cooperation Agency:

a. Document each organization's responsibilities in the North Atlantic Treaty Organization Afghan National Army Trust Fund financial reporting process.

***CSTC-A response*:**
We agree with the recommendation. For the last nine months OSD(C), CSTC-A, DFAS, and USACE, as well as Army Central Command (ARCENT), have conducted weekly teleconferences to support this DODIG audit examination. These meetings have helped to layout each organizations' responsibilities and roles within the administration, execution and management of the NATO ANA Trust Fund. A draft MOU was started, and almost completed in December 2013. However, with the fielding of the new General Fund Enterprise Business System (GFEBS), as the new accounting and financial management system in January 2014, it was prudent to hold off on completing the MOU until GFEBS is fully fielded. Once fielded CSTC-A, NATO ANA Trust Fund Office will revise the draft MOU to account for the changes in the financial management system and document the new procedures. CSTC-A in coordination with OSD(C), NATO, SHAPE, DFAS, and ARCENT will complete the new MOU by 31 March 2014.

2. Recommendation 2:
Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD, in coordination with Commanding General, North Atlantic Treaty Organization Training Mission–Afghanistan/Combined Security Transition Command–Afghanistan:

a. Develop and implement standard operating procedures documenting the North Atlantic Treaty Organization Afghan National Army Trust Fund financial reporting process, including the reconciliation of the project-level supporting schedule to the accounting data on a quarterly basis.

***CSTC-A response*:**
We agree with this recommendation. We recognize the best way to address the constant turnover associated with a contingency operation is to have simple and codified processes in place. Once OSD(C) completes the interagency MOU, with the organizations specified in recommendation #1, and NATO, SHAPE and the U.S. finalize the new tri-lateral NATO ANA Trust Fund MOU; the NATO ANA Trust Fund Office will complete a new standard operating procedure (SOP) as a supplement to the two MOU's that are currently being worked. By waiting for the appropriate organizations to complete the two MOU's, the NATO ANA Trust Fund Office's SOP will incorporate all the specified and implied tasks, processes and procedures. This will prevent an immediate re-write of the SOP as the MOU's are completed. Based on the expected completion dates of the two MOU'S, the NATO ANA Trust Fund Office will complete the new SOP by15 April 2014. The SOP will include the reconciliation of the project-level supporting schedule to the accounting data on a quarterly basis.

3. Recommendation 3:
Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD, in coordination with the Commanding General, North Atlantic Treaty Organization Training Mission–Afghanistan/Combined Security Transition Command–Afghanistan:

Page 1 of 2

Combined Security Transition Command-Afghanistan (cont'd)

CSTC-A DRAFT REPORT RESPONSE
"Examination of DoD Execution of NATO Donations to the ANA Trust Fund"
(DoD IG Draft Report 2013-0056)

a. Improve processes to streamline the receipt of funds into the contribution fund so the cost transfer and accounting adjustment processes are not necessary.

b. Implement a process to notify the Supreme Headquarters Allied Powers Europe when project execution needs to begin before receiving North Atlantic Treaty Organization contributions, in order to meet mission requirements.

c. Disclose the return of the $145.6 million in funds on the published financial schedule for the period ending March 31, 2013, to ensure that the North Atlantic Treaty Organization and international partners relying on the financial report can make informed decisions and judgments about their contributions.

***CSTC-A response*:**
a. We agree with this recommendation. However, due to the nature and complexity of the drawdown process we will never be able to completely eliminate accounting adjustments, especially given the actual price fluctuations in the contracting process. The delays outside of CSTC-A's control resulting from the national caveat and re-caveat issues would prevent this from being fully realized. The OUSD(C) and CSTC-A, NATO ANA Trust Fund Office have worked extensively for the last six months to modify their processes, which resulted in a 65 percent decrease in processing time of drawdowns. This has greatly reduced the number of accounting adjustments in the last six months. With the proper manning and continued emphasis on process improvement, we believe this could be further reduced.

b. We agree with this recommendation. Along with OSD(C), and IAW the new tri-lateral NATO ANA Trust Fund MOU, we are working on a new report, called the Annual Implementation Plan. The plan, due in 1 December of each year, will identify when the NATO ANA Trust Fund Office needs funds from SHAPE to send to contracting. This new plan, along with quarterly updates, should provide the visibility need for SHAPE to support projects in a timelier manner.

c. We disagree with this recommendation. We agree that the return of funds significantly changes the 2012 fiscal picture, but believe the timing of this event and the fact that the nations have already been notified of this return make this recommendation unnecessary. This audit was based on the 31 March 2013 Quarterly Report. The CSTC-A NATO ANA Trust Fund Office, with assistance from OSD(C), Army Budget Office, and DFAS did not return the $145.6 million to SHAPE until September 2013. The September 2013 NATO ANA Trust Fund Quarterly Report to the donor nations clearly showed this return and explained the reason; a limitation of the U.S. Finance System. We have even briefed this return during meeting in theater. Additionally, the effects of the return will be shown in the December 2013 NATO ANA Trust Fund Annual Report. Therefore, we believe the international community has been properly and fully notified without the republication of a 31 March 2013 financial statement.

APPROVED BY:

[redacted]

PREPARED BY:

[redacted]

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Defense Finance and Accounting Service-Indianapolis

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

FEB 19 2014

DFAS-JBK/IN

MEMORANDUM FOR DIRECTOR, DEPARTMENT OF DEFENSE, OFFICE OF INSPECTOR GENERAL

SUBJECT: Draft Report of Independent Auditor's Report on the Examination of DoD Execution of North Atlantic Treaty Organization – Contributing Countries' Donations to Afghan Army Trust Fund – D2013-D000FL-0056.000

The Defense Finance and Accounting Service Indianapolis is providing management comments requesting a revision to the Draft Report.

My point of contact for this action is [redacted] who can be reached at [redacted]

Aaron P. Gillison
Director, DFAS-IN

Attachment:
As stated

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Defense Finance and Accounting Service-Indianapolis (cont'd)

Final Report Reference

Draft Report of Independent Auditor's Report on the Examination of DoD Execution of North Atlantic Treaty Organization – Contributing Countries' Donations to Afghan Army Trust Fund – D2013-D000FL-0056.000

Revised, Page 13

Current Management Comments: DFAS Indianapolis would like to change the wording of the report on page 10, line 13, which reads "Upon completion of the transfer, DFAS disbursed the funds to SHAPE." We believe the more correct wording would be "Upon completion of the transfer, NTM-A/CSTC-A personnel certified vouchers that authorized DFAS to return the funds to SHAPE and the funds were subsequently disbursed by DFAS."

DFAS Indianapolis concurs with Recommendation 1, and we are already working closely with other stakeholder organizations to document responsibilities in the financial reporting process.

Acronyms and Abbreviations

ANA	Afghan National Army
ARCENT	U.S. Army Central
ASFF	Afghanistan Security Forces Fund
CSTC-A	Combined Security Transition Command–Afghanistan
DFAS	Defense Finance and Accounting Service
DSCA	Defense Security Cooperation Agency
FINCON	Financial Controller
MOU	Memorandum of Understanding
NATO	North Atlantic Treaty Organization
NTM-A	NATO Training Mission–Afghanistan
OUSD(C)/CFO	Office of the Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD
SHAPE	Supreme Headquarters Allied Powers Europe
SOP	Standard Operating Procedure
U.S.C.	United States Code
USACE	U.S. Army Corps of Engineers

INSPECTOR GENERAL

DEPARTMENT OF DEFENSE

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