



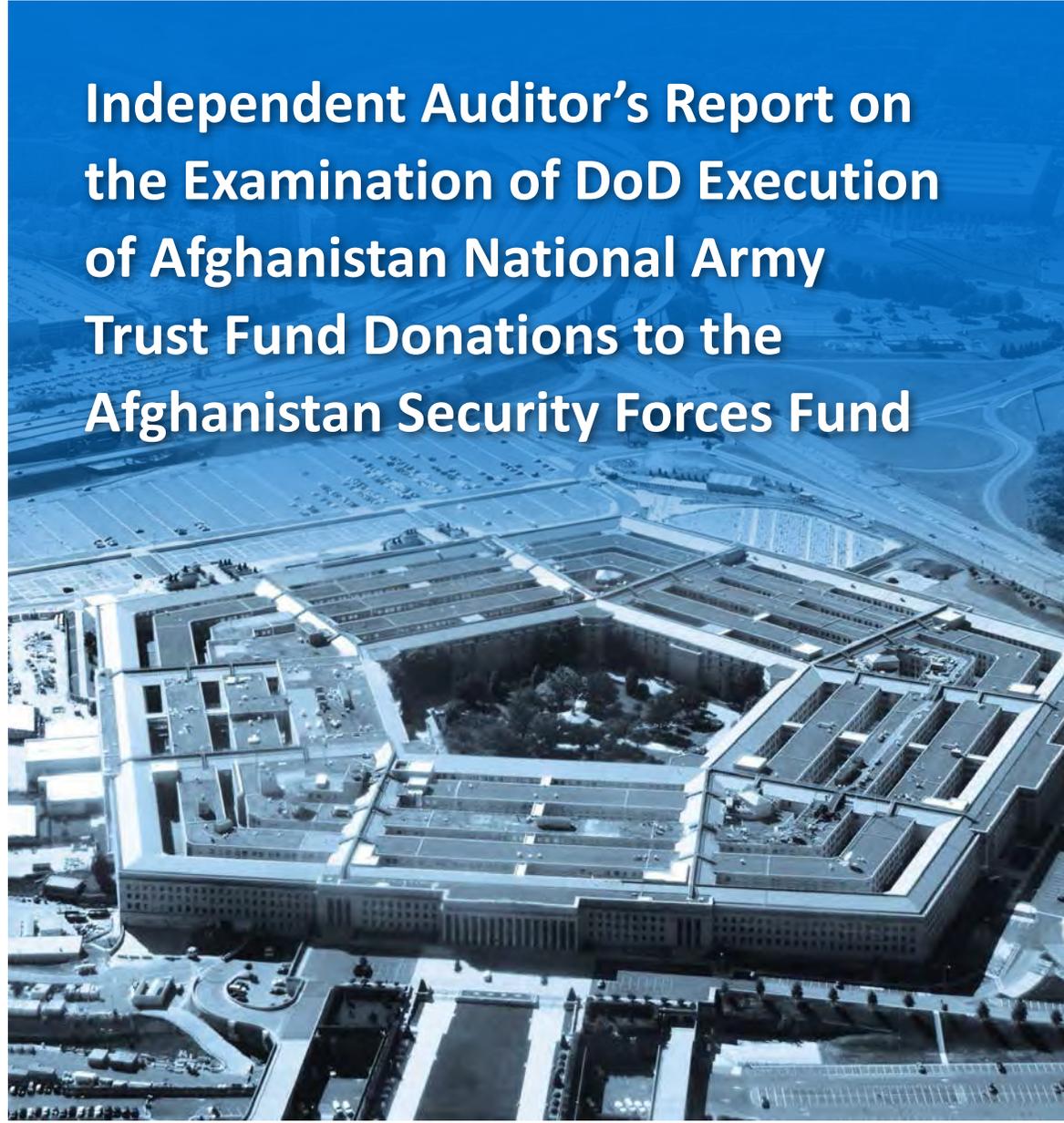
INSPECTOR GENERAL

U.S. Department of Defense

JULY 31, 2015



Independent Auditor's Report on the Examination of DoD Execution of Afghanistan National Army Trust Fund Donations to the Afghanistan Security Forces Fund



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

July 31, 2015

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 Afghanistan National Army Trust Fund Donations to the Afghanistan Security Forces Fund (Report No. DODIG-2015-154)

We are providing this report for your information and use. No written response to this report is required. Therefore, we are publishing this report in final form. We conducted this attestation engagement in accordance with examination engagement standards established by the American Institute of Certified Public Accountants and with generally accepted government auditing standards.

We appreciate the courtesies extended to the staff. Please direct questions to me at (703) 601-5945.

A handwritten signature in blue ink that reads "Lorin T. Venable".

Lorin T. Venable, CPA
Assistant Inspector General
Financial Management and Reporting

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

July 31, 2015

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

Audit Opinion

We examined management's assertion of the receipts and expenditures, as of June 30, 2014, for projects fully funded from the North Atlantic Treaty Organization (NATO) Afghanistan National Army (ANA) Trust Fund contributions received into the Afghanistan Security Forces Fund (ASFF) in FY 2013 or earlier.¹ This is the second examination of the NATO ANA Trust Fund. The Deputy Comptroller (Program/Budget), Office of the Under Secretary of Defense (Comptroller) (Deputy Comptroller) asserted that the receipts and expenditures from the NATO ANA Trust Fund contributions were fairly presented. Appendix A contains the Deputy Comptroller's assertion. The Deputy Comptroller is responsible for the assertion of the receipts and expenditures for the NATO ANA Trust Fund. We are required to express an opinion on the assertion based on our examination.

We conducted our examination in accordance with attestation standards established by the American Institute of Certified Public Accountants and generally accepted government auditing standards. Those standards require us to examine, on a test basis, evidence that supports the Deputy Comptroller's assertion of the NATO ANA Trust Fund receipts and expenditures and perform other procedures we consider necessary. We believe our examination provides a reasonable basis for our modified opinion on management's assertion.

We used information obtained from the Deputy Comptroller, the Combined Security Transition Command-Afghanistan (CSTC-A) NATO ANA Trust Fund Office (NATFO), U.S. Army Central (USARCENT), U.S. Army Corps of Engineers (USACE), Defense Security Cooperation Agency (DSCA), and the Defense Finance and Accounting Service (DFAS) to determine the accuracy and completeness of the receipts and expenditures. The Deputy Comptroller asserted to \$538 million in collections, \$488 million in obligations, and \$422 million in disbursements, as of June 30, 2014, for projects fully funded with NATO ANA Trust Fund contributions received into the ASFF in FY 2013 or earlier.

¹ The Deputy Comptroller excluded from their assertion any projects funded with FY 2014 or later funds, which also excluded the reporting of any prior collections, obligations, and disbursements related to these projects.

To test accuracy and completeness, we reconciled the asserted amounts to the transaction-level supporting documentation. We tested the collections, obligations, and disbursements related to \$490 million of the \$538 million received. We identified variances² of \$17.1 million in obligations and \$16.3 million in disbursements. As a result, we identified a material misstatement in the assertion.

In our opinion, because of the significance of the material variances described in the preceding paragraph, management's assertion of the receipts and expenditures of projects fully funded with contributions to the NATO ANA Trust Fund in FY 2013 or earlier was not presented fairly in accordance with generally accepted accounting principles.

Internal Controls

According to Office of Management and Budget Circular No. A-123, internal controls should safeguard assets from waste, loss, unauthorized use, or misappropriation and comply with laws and regulations. We made recommendations in DoDIG Report No. DODIG-2014-046³ that once implemented, would improve internal controls over financial reporting in future periods.

In response to our previous recommendations, management initiated corrective actions in FY 2014 to improve future financial reporting processes. For this examination, the scope of the Deputy Comptroller's assertion ended before management implemented the new internal control procedures. As a result, the same pervasive internal control weaknesses were in place and resulted in the material variances found during this examination. The Deputy Comptroller, CSTC-A NATFO, and DFAS should complete the recommended financial reporting process improvements previously identified to improve internal controls and processes for recording obligations and disbursements.

During this examination, we identified insufficient internal controls related to reconciling accounting level data to supporting documentation and recording currency fluctuations and interest penalties correctly. We brought these internal control weaknesses to management's attention for appropriate corrective action.

Table 1 summarizes the variances identified during our reconciliation of the assertion data to the supporting documentation. Appendix B contains a detailed listing of the variances by project.

² A variance represents unsupported or misstated amounts, reported in absolute values.

³ DODIG-2014-046, "Independent Auditor's Report on the Examination of DoD Execution of North Atlantic Treaty Organization Contributing Countries' Donations to Afghan National Army Trust Fund," March 24, 2014.

Table 1. Assertion Variances Summary

Variances Descriptions	Obligations (millions)	Disbursements (millions)
Incomplete Reconciliation:		
DSCA	\$0.01	\$5.58
Cost Transfers	2.08	2.08
Other	14.68	8.22
Total Incomplete Reconciliation Variance	16.76	15.87
Currency Fluctuation and Interest Penalties:		
Currency Fluctuation	.34	.35
Interest Penalties	.02	.05
Total Variance	.36	.40
Total	\$17.13	\$16.28

Note: Totals may not equal the actual sum because of rounding.

Incomplete Reconciliation

We identified variances of \$16.8 million in obligations and \$15.9 million in disbursements because, according to Deputy Comptroller and CSTC-A NATFO personnel, they did not perform detailed-level reconciliations and did not ensure the accuracy and completeness of the accounting data. The Deputy Comptroller and CSTC-A NATFO personnel implemented a quarterly reconciliation of project-level supporting schedule to the accounting level data, as previously recommended; however, they stated that they did not reconcile the transactions recorded at the accounting level to the supporting documentation. Because they did not reconcile the accounting data to the supporting documentation, their actions did not meet the intent of our previous recommendation.

Defense Security Cooperation Agency

We identified a \$5.6 million variance in disbursements because the Deputy Comptroller asserted to DSCA's accounting level data instead of the transaction level data. For projects executed by DSCA, Deputy Comptroller personnel relied on information from DSCA's accounting system, the Washington Headquarters Services Allotment Accounting System (WAAS), to assert to \$19 million in obligations and \$19 million in disbursements, as of June 30, 2014.

Of the \$19 million included in the Deputy Comptroller's assertion, we examined \$15.4 million in obligations and \$15.4 million in disbursements. However, of the \$15.4 million in obligations we examined, DSCA and DFAS personnel could not provide a complete universe of transactions to support the obligations reported in WAAS. Therefore, we could not determine the total variance between WAAS and the transaction level data for obligations.

Of the \$15.4 million in disbursements we examined, the individual systems⁴ that track the funds' execution only reported transaction level data for \$9.8 million in disbursement transactions as of June 30, 2014. Furthermore, DSCA personnel did not reconcile the accounting data to the detail from the individual systems until all work was complete for a project, which may have been 2 years after the last transaction was recorded.

In addition, because Deputy Comptroller and CSTC-A NATFO personnel did not reconcile the accounting data to the supporting documentation, the Deputy Comptroller personnel excluded a FY 2011 DSCA project worth \$23.8 million from the assertion based on inaccurate information about the status of the project. Specifically, Deputy Comptroller personnel stated the project received additional FY 2014 funds, which based on the scope of the examination would have excluded the project from their assertion. After further research, the Deputy Comptroller personnel acknowledged that DSCA did not apply the FY 2014 funds to the project as planned. If the Deputy Comptroller personnel had reconciled this project to the transaction-level data as previously recommended, they would have identified that the FY 2014 funds were not used on the project. Therefore, the FY 2011 \$23.8 million project should have been included in the assertion.

Cost Transfers

USARCENT personnel could not support \$2.1 million in obligations and disbursements transferred into the NATO ANA Trust Fund contributions account using accounting adjustments and cost transfers.⁵ During the reporting period, CSTC-A NATFO personnel used U.S.-appropriated funds to execute obligations and disbursements and then USARCENT approved reimbursement of these funds with NATO contributions. Because USARCENT could not provide the transaction level detail to support the transfer of funds between the accounts, they could not support the obligations and disbursements included in the transfers.

Furthermore, we identified that the \$2.1 million in transfers included \$0.8 million of obligations and disbursements that related to a canceled contract. As a result, on February 11, 2015, DFAS issued a debt collection notice to recover the \$0.8 million overpayment.

⁴ Agencies that execute DSCA cases track obligation and disbursement transactions in legacy management information systems, such as the Management Information System for International Logistics, Centralized Information System for International Logistics, and the Defense Integrated Financial System. These systems do not directly update the Washington Headquarters Services Allotment Accounting System.

⁵ A cost transfer moves commitment, obligation, accrual, and disbursement transactions between accounting classifications either within or between appropriations.

Other Variances

We found additional variances of \$14.7 million in obligations and \$8.2 million in disbursements that resulted from unsupported accounting transactions and various misstatements, such as transactions recorded in the incorrect accounting period and keying errors. For example, DSCA and DFAS personnel could not provide adequate supporting documentation for \$8 million in DSCA disbursements recorded in the accounting system.

Also, we found that of the \$14.7 million in obligation variances, USARCENT personnel delayed recording \$13.4 million in obligations that occurred before June 30, 2014, until a later period. If management had reconciled the accounting data to the supporting documentation, these variances could have been discovered and corrected.

Currency Fluctuations and Interest Penalties

USARCENT and DFAS-Rome did not have appropriate controls in place to accurately record currency fluctuations and interest penalties. Specifically, we found variances of \$342,000 in obligations and \$355,000 in disbursements for currency fluctuations. In addition, we found variances of \$20,000 in obligations and \$47,000 in disbursements for interest penalties.

Currency Fluctuation

The Deputy Comptroller personnel understated their assertion by \$342,000 in obligations and \$355,000 in disbursements because USARCENT and DFAS-Rome personnel incorrectly applied the treatment of currency fluctuations in recording NATO ANA Trust Fund disbursements. For example, the Deputy Comptroller personnel understated their assertion by \$338,000 in obligations and disbursements because USARCENT requested that DFAS-Rome transfer obligations and disbursements from one account to another. Their request did not capture the currency fluctuation amounts associated with those transactions.

We addressed this concern with Deputy Comptroller and USARCENT personnel, and the USARCENT personnel agreed that if the contract charges were transferred to a different account, then all applicable charges to the contract, including currency fluctuations, should have been moved as well.

Interest Penalties

The Deputy Comptroller understated their assertion by \$20,000 in obligations and \$47,000 in disbursements because DFAS personnel incorrectly applied the treatment of interest penalties in processing NATO ANA Trust Fund disbursements. For projects that included interest payments, DFAS recorded interest under basic symbols 2091⁶ and 2020.⁷ For example, for one project, DFAS processed \$22,926 in interest payments for 19 invoices against an incorrect basic symbol (2020). Therefore, the Deputy Comptroller's assertion did not include the interest payment amounts associated with disbursements for the 19 invoices that cited basic symbol 2020.

We addressed this concern with Deputy Comptroller and USARCENT personnel, and the USARCENT personnel agreed that this was an incorrect, but common, practice for in-theatre paying offices. As USARCENT personnel discovered the errors, they notified DFAS of the changes to be made. However, based on our analysis, they did not discover all the errors.

Improving the internal control processes associated with these variances will assist the Deputy Comptroller achieve auditable processes for future examinations.

We provided a discussion draft of this report to the Office of the Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD, and DFAS, both of whom provided technical comments that we have incorporated as appropriate. This report will be made publicly available pursuant to section 8M, paragraph (b)(1)(A), of the Inspector General Act of 1978, as amended. However, this report is intended solely for the information and use of the Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD, and the Commanding General, Combined Security Transition Command–Afghanistan and is not intended to be used by anyone else.



Lorin T. Venable, CPA
Assistant Inspector General
Financial Management and Reporting

⁶ "Afghanistan Security Forces Fund, Army," Budget Activity Group 53 (BAG 53), "NATO Contributions"

⁷ "Operation and Maintenance, Army"

Appendix A

Deputy Comptroller Assertion



COMPTROLLER

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

OCT 23 2014

(Program/Budget)

MEMORANDUM FOR DEPARTMENT OF DEFENSE INSPECTOR GENERAL (DoDIG)

SUBJECT: Assertion for the Examination of the NATO Afghanistan National Army 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, 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, and Non-Recurring) fully funded from NATO ANA Trust Fund contributions received into ASFF in FY 2013 or earlier. This encompasses the ASFF appropriation in FY 2010/2011, FY 2012/2013, and the X-year accounts.

<u>Fiscal Year</u>	<u>Received</u>	<u>Obligations</u>	<u>Disbursements</u>
10-13X	\$80,715k	\$49,306k	\$32,127k
2010	\$115,992k	\$115,265k	\$114,775k
2012	\$340,876k	\$323,875k	\$274,658k

We assert the receipts and expenditures reported above are presented fairly. The accuracy and completeness of these contributions can be verified by reviewing the schedules of supporting data as of June 30, 2014. This memorandum supersedes the previously provided assertion memorandum dated September 24, 2014.

John Roth
Deputy Comptroller



Appendix B

Detail of Project Variances

Table B. Detail of Project Variances

Project Numbers	Asserted Collections (millions)	Collections Variance (millions)	Asserted Obligations (millions)	Obligations Variance (millions) ¹	Asserted Disbursements (millions)	Disbursements Variance (millions) ²
1/NR	\$5.02	\$0.00	\$4.29	\$0.29	\$4.29	\$4.30
1a/NR	0.00	0.00	0.71	0.00	0.71	0.71
1a/S	32.79	0.00	31.16	0.00	30.94	0.00
1b/S	0.00	0.00	0.00	0.05	0.00	0.00
1/S	12.59	0.00	12.58	0.00	12.56	0.00
2/S	9.40	0.00	9.32	0.00	9.25	0.02
3/LPME	0.09	0.00	0.08	0.00	0.08	0.00
3/S	15.00	0.00	14.97	2.01	14.97	2.01
4/S	15.00	0.00	14.98	0.00	14.82	0.00
5/S	14.70	0.00	14.67	0.02	14.67	0.27
6/NR	0.05	0.00	0.00	0.00	0.00	0.00
6/S	11.50	0.00	5.91	0.08	5.88	0.09
6a/S	0.00	0.00	3.91	0.11	3.91	2.09
7/LPME	11.86	0.00	0.00	0.00	0.00	0.00
7/NR	0.04	0.00	0.02	0.00	0.02	0.00
7/S	19.29	0.00	13.98	0.00	13.96	0.00
8/LPME	11.87	0.00	0.00	0.00	0.00	0.00
8/S	10.26	0.00	8.07	0.00	5.55	0.00
8a/S	0.00	0.00	2.74	0.00	0.71	0.00

Table B. Detail of Project Variances (cont'd)

Project Numbers	Asserted Collections (millions)	Collections Variance (millions)	Asserted Obligations (millions)	Obligations Variance (millions) ¹	Asserted Disbursements (millions)	Disbursements Variance (millions) ²
9/LPME	10.08	0.00	0.00	0.00	0.00	0.00
9/NR	0.00	0.00	0.00	0.00	0.00	0.00
9/S	82.00	0.00	3.02	0.00	3.02	0.00
9a/S	0.00	0.00	36.61	0.00	33.60	0.00
10/LPME	10.08	0.00	0.00	0.00	0.00	0.00
11/LPME	0.00	0.00	0.00	0.00	0.00	0.00
15/S	25.50	0.00	25.50	0.00	5.81	0.00
16/S	0.15	0.00	0.14	0.00	0.14	0.00
17/S	6.00	0.00	4.99	0.00	4.31	0.00
18/S	18.00	0.00	11.71	0.34	11.71	0.34
23/S	0.00	0.00	0.54	0.00	0.54	0.00
26/S	0.00	0.00	0.08	0.00	0.08	0.00
34/S	29.69	0.00	0.00	0.00	0.00	0.00
38/S	0.79	0.00	0.54	0.00	0.52	0.00
46/S	12.80	0.00	12.08	0.00	4.30	0.00
47/S	10.00	0.00	0.00	0.00	0.00	0.00
49/S	13.00	0.00	1.64	0.00	1.54	0.00
50/S	20.00	0.00	26.29	0.00	24.59	0.00
51/S	5.00	0.00	3.65	0.80	2.43	0.00
52/S	4.00	0.00	0.95	0.00	0.00	0.00
53/S	20.00	0.00	8.89	0.00	0.64	0.00
54/S	11.99	0.00	0.00	0.00	0.00	0.00
55/S	0.00	0.00	0.00	0.00	0.00	0.00

Table B. Detail of Project Variances (cont'd)

Project Numbers	Asserted Collections (millions)	Collections Variance (millions)	Asserted Obligations (millions)	Obligations Variance (millions) ¹	Asserted Disbursements (millions)	Disbursements Variance (millions) ²
56/S	0.00	0.00	0.62	0.00	0.62	0.00
59/S	11.40	0.00	0.00	12.48	0.00	0.00
60/S	30.00	0.00	16.67	0.00	7.79	0.00
62/S	0.00	0.00	2.50	0.00	0.00	0.00
63/S	0.00	0.00	1.45	0.01	1.43	0.00
63a/S	0.00	0.00	6.52	0.93	6.52	6.45
64/S	0.00	0.00	0.00	0.00	0.00	0.00
68/S	0.00	0.00	0.95	0.00	0.00	0.00
74/S	0.00	0.00	0.00	0.00	0.00	0.00
Return of Funds ³	0.00	0.00	158.88	0.00	158.88	0.00
Total⁴	\$489.94	\$0.00	\$461.56	\$17.13	\$400.78	\$16.28

¹ Projects 4/S, 7/S, 49/S, 56/S, and 68/S have a combined obligations variance of \$6,663, which is included in the total.

² Projects 3/LPME, 4/S, 7/S, 8/S, 23/S, 26/S, 38/S, 49/S, 50/S, 56/S, and 60/S have a combined disbursements variance of \$4,805, which is included in the total.

³ The Deputy Comptroller returned unused funds to NATO Supreme Headquarters Allied Powers Europe for reallocation.

⁴ Totals may not equal the actual sum because of rounding.

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U.S. DEPARTMENT OF DEFENSE

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