Report No. DODIG-2017-041

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INSPECTOR GENERAL

U.S. Department of Defense

JANUARY 11, 2017

Combined Security Transition Command–Afghanistan Improved Controls Over U.S.-Funded Ministry of Defense Fuel Contracts, but Further Improvements are Needed

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Results in Brief

Combined Security Transition Command–Afghanistan Improved Controls Over U.S.-Funded Ministry of Defense Fuel Contracts, but Further Improvements are Needed

January 11, 2017

Objective

We determined whether the Combined Security Transition Command–Afghanistan (CSTC-A) and the Afghanistan Ministry of Defense (MoD) established effective controls for the oversight of MoD fuel contracts.

In 2011, the Office of the Under Secretary of Defense (Comptroller)/Chief Financial Officer authorized CSTC-A to provide Afghanistan Security Forces Fund (ASFF) resources directly to the Afghanistan MoD to sustain the Afghanistan National Defense and Security Forces.

CSTC-A is the DoD command that provides oversight and ensures adequate fiscal controls are in place to safeguard ASFF direct contributions provided to the Afghanistan ministries.

CSTC-A and MoD sign annual Bilateral Financial Commitment Letters (commitment letters) that commit CSTC-A to fund specified portions of the MoD budget. The commitment letters serve as bilateral agreements between CSTC-A and Government of the Islamic Republic of Afghanistan (GIRoA) and are intended to assist the GIRoA in implementing the necessary oversight and controls to satisfy auditors and the international community.

We audited CSTC-A controls of two MoD-awarded, ASFF-funded contracts that provide vehicle and generator fuel to the Afghanistan National Army (ANA). The contracts, awarded in January 2016, have an aggregate ceiling value of $174.7 million.

Finding

CSTC-A and MoD initiated several measures to improve the oversight of the U.S. direct assistance–funded MoD fuel contracts. Specifically, CSTC-A:

- established regular Logistics Executive Steering Committee meetings to increase the internal coordination among Essential Function (EF)-2 (CSTC-A transparency, oversight, and accountability advisors), EF-5 (CSTC-A logistics advisors), and the MoD;
- began assessing financial penalties on specific ANA corps for insufficient commitment letter compliance; and
- validated MoD's annual fuel requirements.

However, CSTC-A and MoD need to implement additional controls to improve the verification of fuel data. Specifically, CSTC-A and MoD cannot ensure the accuracy of fuel delivery reports and fuel consumption reports provided by vendors and ANA corps, respectively. This occurred because CSTC-A did not require the MoD to conduct physical inspections of fuel points or assess the ANA's process for reporting consumption data. As a result, U.S. direct assistance continues to be vulnerable to fraud, waste, and abuse. Specifically, CSTC-A does not have reasonable assurance that fuel purchased on two U.S. direct assistance–funded contracts, valued at $174.7 million, will be used to support ANA requirements.

Recommendation

We recommend the Commanding General, Combined Security Transition Command–Afghanistan:

a. require future MoD fuel contracts to include provisions for periodic, unannounced inspections to validate fuel deliveries; and

b. direct the EF-1 Audit division to conduct an assessment of the current ANA Office of the General Staff, Inspector General (GSIG) and Office of the General Staff, Chief of Logistics (GSG4) consumption report verification processes to determine its adequacy.

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Results in Brief

Combined Security Transition Command–Afghanistan Improved Controls Over U.S.-Funded Ministry of Defense Fuel Contracts, but Further Improvements are Needed

Management Actions Taken

During the audit, we advised the CSTC-A Chief of Staff and officials from EF-1, EF-2, and EF-5, that deficiencies existed within the controls of the U.S. direct assistance–funded MoD fuel contracts. Specifically, the reliance on vendors and ANA corps to provide fuel delivery and consumption reports, respectively, without any independent verification.

These officials agreed with our observations and confirmed they were planning actions to address weaknesses within the oversight of fuel contracts. Specifically, CSTC-A said it was developing a bulk fuel contract, expected to be awarded in August 2017, that will be fully administered by the U.S. government. After the bulk fuel contract is awarded, CSTC-A will conduct physical inspections of the fuel deliveries. According to CSTC-A, Petroleum Teams comprising U.S. military personnel will be positioned at several coalition bases throughout Afghanistan. The Petroleum Teams will arrive at delivery locations and verify the amount of fuel delivered and test the fuel quality. CSTC-A's plan to conduct inspections of fuel deliveries addresses of our concern of relying on vendor-provided delivery data.

According to CSTC-A, consumption reporting requirements will not change when the U.S.-administered fuel contract is in place. The EF-5 will continue to monitor each ANA's Corps' consumption reports and will continue to assess penalties for violation of commitment letter conditions. In addition, CSTC-A agreed to direct its Audit division to conduct an assessment of the GSG4 and GSIG processes of consumption report collection and verification.

CSTC-A management actions taken during the audit addressed the recommendation; therefore, no further comments are required. However, we will monitor progress in implementing the corrective actions to address the recommendation.

Recommendation Table

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

INSPECTOR GENERAL
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January 11, 2017

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

SUBJECT: Combined Security Transition Command–Afghanistan Improved Controls Over U.S.-Funded Ministry of Defense Fuel Contracts, but Further Improvements are Needed (Report No. DODIG-2017-041)

We are providing this final report for your information and use. Combined Security Transition Command–Afghanistan (CSTC-A) and the Afghanistan Ministry of Defense (MoD) initiated several measures to improve the oversight of the U.S. direct assistance–funded MoD fuel contracts. However, CSTC-A and MoD need to implement additional controls to improve the verification of fuel data. We conducted this audit in accordance with generally accepted government auditing standards.

CSTC-A and MoD initiated several measures to improve the oversight of the U.S. direct assistance–funded MoD fuel contracts. Specifically, CSTC-A and MoD established regular Logistics Executive Steering Committee meetings to increase the internal coordination among the Essential Function-2, Essential Function-5, and MoD; began assessing financial penalties on specific Afghanistan National Army corps for insufficient commitment letter compliance; and validated MoD's annual fuel requirements. However, CSTC-A and MoD need to implement additional controls to improve the verification of fuel data. Specifically, CSTC-A and MoD cannot ensure the accuracy of fuel delivery reports and fuel consumption reports provided by vendors and Afghanistan National Army corps, respectively. During the audit, we notified CSTC-A officials of our findings and recommendation. CSTC-A's management actions taken during the audit addressed our recommendation; therefore, no further comments are required.

We appreciate the courtesies extended to the staff. Please direct questions to me at Michael.Roark@dodig.mil, (703) 604-9187 (DSN 664-9187).

Michael J. Roark
Assistant Inspector General
Contract Management and Payments

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Introduction

Objective

Our objective was to determine whether the Combined Security Transition Command–Afghanistan (CSTC-A) and the Afghanistan Ministry of Defense (MoD) established effective controls for the oversight of MoD fuel contracts.

Background

In 2011, the Office of the Under Secretary of Defense (Comptroller)/Chief Financial Officer authorized CSTC-A to provide Afghanistan Security Forces Fund (ASFF) resources directly to the Afghanistan MoD and Ministry of Interior (MoI) to sustain the Afghanistan National Defense and Security Forces (ANDSF). The goal of this support is to develop ministerial capability and capacity in the areas of budget development and execution, payment of salaries, acquisition planning, and procurement. Establishing a formal process to manage these contributions ensures the Afghanistan ministries develop the skills and experience to provide security independently and operate successfully within the Government of the Islamic Republic of Afghanistan (GIRoA). Furthermore, the process ensures contributions are provided and executed responsibly to directly benefit the ANDSF. For FY 2016, the U.S. Congress appropriated GIRoA with $3.7 billion in ASFF funding.[1]

Roles and Responsibilities

Resolute Support Mission

In January 2015, a new noncombat mission named Resolute Support replaced the International Security Assistance Force. The purpose of the mission is to train, advise, and assist the MoD at the ministerial, institutional, and operational levels. Specifically, Resolute Support shifted the emphasis from unit-based combat advising to a functionally based advising approach that is organized into eight essential functions (EF).[2] CSTC-A advisors are aligned with Afghan components to perform essential functions and associated sub-functions in an effort to improve the capacity of the MoD to execute functions, such as planning, programming, and budgeting processes, resource management, and procurement. Of the eight EFs, only EF-1, EF-2, and EF-5 were relevant to our audit objective.

[1] According to OSD-Policy officials, ASFF contributions include paying for ANDSF salaries, and DoD contracts through Foreign Military Sales cases. The total amount provided for contracting was $761.4 million.

[2] Essential functions are organizations and functional topics that provide the framework and guidelines to achieve Afghan sustainability. For a description of all EFs, see Appendix B.

~~(FOUO)~~ [redacted]

- ~~(FOUO)~~ [redacted]
- ~~(FOUO)~~ [redacted]
- ~~(FOUO)~~ [redacted]
- ~~(FOUO)~~ [redacted]

~~(FOUO)~~ [redacted]

~~(FOUO)~~ [redacted]

Combined Security Transition Command–Afghanistan

~~(FOUO)~~ [redacted]

Bilateral Financial Commitment Letters

CSTC-A and MoD sign annual Bilateral Financial Commitment Letters (commitment letters) that commit CSTC-A to fund specified portions of the MoD budget. Under international law, these commitment letters do not bind either CSTC-A or GIRoA.

The commitment letters serve as bilateral agreements between CSTC-A and GIRoA and are intended to assist the GIRoA in implementing the necessary oversight and controls to satisfy auditors and the international community of GIRoA's ability to implement transparent and accountable fiscal processes. In addition, the commitment letters establish the responsibilities for all parties that sign the commitment letter.

We focused on performance requirements as agreed upon in the FY 1395[3] Commitment Letter. Specifically, CSTC-A and MoD officials agreed to meet at two fuel meetings per month to discuss fuel-related issues, such as fuel allocations and documentation. Additionally, the MoD is required to submit a monthly consumption report, which states how much fuel each Afghanistan National Army (ANA) corps uses.

Afghanistan Ministry of Defense

The MoD manages the ANA through developing, validating, and justifying requirements for its annual budget, to include the use of ASFF direct contributions. It also designs and implements internal controls to ensure that the ASFF direct contributions are used as intended. The MoD is required to manage the commitment, obligation, and expenditure of ASFF direct contributions, to include the development and maintenance of supporting documentation.

The MoD is required to manage the commitment, obligation, and expenditure of ASFF direct contributions, to include the development and maintenance of supporting documentation.

~~(FOUO)~~ [redacted]

The ANA Office of the General Staff, Chief of Logistics (GSG4) is responsible for ANA logistical activities. The GSG4 develops logistics policy and regulations, implements military materiel management, and establishes requirements for all materiel commodities for the ANA.

The ANA Office of the General Staff, Inspector General (GSIG) is the advisor who provides continuing assessment of the discipline, efficiency, economy, morale, training, and combat readiness of the ANA. Among other responsibilities, the GSIG conducts assessments, inspections, inquiries, and investigations. Additionally, the GSIG provides oversight for inspections and investigations conducted by subordinate command Inspectors General.

[3] The Afghanistan fiscal year 1395 is December 21, 2015 through December 20, 2016.

MoD Fuel Contracts

In February 2016, the MoD awarded contracts to two vendors to provide vehicle and generator fuel to the six ANA corps and the 111th Capital Division from February 2016 to February 2017. The contracts, awarded to Firdaus Logistics and Northern Afghanistan Logistics Services, have an aggregate ceiling value of $174.7 million.

Table. MoD Fuel Contracts

Contractor	ANA Corps	Period Of Performance	Contract Ceiling ($ in millions)
Firdaus Logistic Services	203rd	February 17, 2016 to February 15, 2017	$22.3
Northern Afghanistan Logistic Services	201st, 205th, 207th, 209th, 215th, 111th Div	February 10, 2016 to February 10, 2017	$152.4
Total			**$174.7**

Source: Contracts provided by EF-1 personnel

In previous commitment letters, CSTC-A considered fuel contracts as high risk due to past corruption associated with the purchase and delivery of fuel. For example, corrupt delivery drivers and ANA personnel diverted fuel for sale and subsequently manipulated delivery data. Additionally, according to CSTC-A, fuel delivery drivers were sometimes stopped by criminal elements or corrupt checkpoint guards to give a portion of their delivery load as a toll.

DoD OIG Audit Report on Ministry of Interior Fuel Contracts

In January 2016, the DoD OIG issued audit report DODIG-2016-040.[4] The audit found that CSTC-A and the MoI did not provide effective oversight of the MoI fuel contracts. Specifically, CSTC-A did not have well-defined roles and responsibilities for contract oversight and did not hold the MoI accountable for commitment letter violations. The audit concluded that CSTC-A did not have reasonable assurance that the fuel ordered for the Afghanistan National Police on the three MoI contracts, valued at $437.6 million and covering FYs 1393 and 1394, supported actual Afghanistan National Police requirements and was used for its intended purpose.

The report recommended that CSTC-A establish specific oversight responsibilities for the MoI fuel contracts for each EF; develop reliable methods to determine whether the MoI accurately documented fuel consumption data; and provide clearer consequences for MoI's noncompliance that CSTC-A would be willing to impose.

[4] DoD OIG Report No. DODIG-2016-040, "Controls Over the Ministry of Interior Fuel Contracts Could Be Improved," January 20, 2016.

Review of Internal Controls

DoD Instruction 5010.40 requires DoD organizations to implement a comprehensive system of internal controls that provides reasonable assurance that programs are operating as intended and to evaluate the effectiveness of the controls. We identified internal control weaknesses in CSTC-A's controls for overseeing MoD fuel contracts. Specifically, CSTC-A and MoD could not ensure the accuracy of fuel delivery reports and fuel consumption reports provided by vendors and ANA corps, respectively. Management initiated corrective actions to address the concerns identified during the audit to resolve the internal control weaknesses. We will provide a copy of the final report to the senior official responsible for internal controls at CSTC-A.

Finding

CSTC-A and MoD Improved Controls Over U.S. Direct Assistance–Funded MoD Fuel Contracts, but Additional Improvements Are Needed

CSTC-A and MoD initiated several measures to improve the oversight of the U.S. direct assistance–funded MoD fuel contracts. Specifically, CSTC-A:

- established regular Logistics Executive Steering Committee (ESC) meetings to increase the internal coordination among the EF-2, EF-5, and MoD,
- started to assess financial penalties on specific ANA corps for insufficient commitment letter compliance, and
- validated MoD's annual fuel requirements.

However, CSTC-A needs to work with the MoD to implement additional controls to improve the verification of fuel data. Specifically, CSTC-A and MoD could not ensure the accuracy of fuel delivery reports and fuel consumption reports provided by vendors and ANA corps, respectively. This occurred because CSTC-A did not require the MoD to conduct physical inspections of fuel delivery points or assess the ANA's process for reporting consumption data.

As a result, U.S. direct assistance continues to be vulnerable to fraud, waste, and abuse. Specifically, CSTC-A does not have reasonable assurance that fuel purchased on two U.S. direct assistance–funded contracts, valued at $174.7 million, will be used to support ANA requirements.

CSTC-A and MoD Improved Controls Over U.S. Direct Assistance–Funded MoD Fuel Contracts

CSTC-A and MoD initiated several measures to improve the oversight of U.S. direct assistance–funded MoD fuel contracts. Specifically, CSTC-A improved coordination among the EF-2, EF-5, and MoD by regularly participating in the ESC. Additionally, CSTC-A began assessing penalties against specific ANA corps for insufficient commitment letter compliance. Finally, CSTC-A's Combined Joint-Engineers (CJ-ENG) and the EF-5 also reviewed MoD's annual fuel requirements to determine whether to accept the requirements.

Logistics Executive Steering Committee Meetings Improved Coordination

CSTC-A and MoD established monthly ESC meetings to increase coordination among EF-2, EF-5, and MoD officials. The purpose of the ESC is to improve MoD's fuel and ammunition contract management and requirements planning. Senior officers from the MoD and EF-5 chair the ESC, while representatives from the EF-2 and the MoD's GSG4 and GSIG also participate.

The ESC is used as a venue to monitor and improve consumption reporting in accordance with the commitment letter. CTSC-A and MoD officials discuss the status of outstanding fuel-related issues, including operational fuel requests and penalties, current fuel allocations, and potential adjustments to fuel allocations. For example, in the August 16, 2016, ESC, EF-2 officials briefed that the GSIG received on-time monthly consumption reports, beginning in April 2016, from each ANA Corps and the 111th Capital Division. Additionally, the EF-2 stressed the importance of GSIG staff attending the Fuel Working Group[5] (FWG) to maintain oversight and situational awareness of fuel-related issues.

Finally, the ESC is also used to discuss on-going penalties and allocation problems. Currently, the ANA's 201st Corps is being penalized 400,000 liters of fuel per month, 23 percent of its normal allocation, for refusing to fully occupy a base located in the Khas Kunar District, Afghanistan, that was built with coalition funds. CSTC-A used the ESC to explain to ANA leadership the penalty will remain until the 201st fully occupies the base.

Enforcement of Commitment Letter Penalties Begun

CSTC-A has begun assessing financial penalties against the MoD for commitment letter violations. Previously, the DoD OIG reported that CSTC-A did not consistently enforce penalties against the ministries for commitment letter violations out of concern the penalties would impact ANA and ANP operations.[6] However, CSTC-A officials believe recent penalties against the MoD for commitment letter violations have resulted in positive outcomes. For example, CSTC-A levied penalties against one ANA corps for violating the commitment letter condition of on-time consumption reporting. EF-5 officials believe that the penalty was successful

CSTC-A officials believe recent penalties against the MoD for commitment letter violations have resulted in positive outcomes.

[5] The FWG is a meeting required by the commitment letter. The purpose of the FWG is for MoD and CSTC-A officials to discuss fuel-related issues, including commitment letter requirements and fuel allocation modifications before the monthly ESC.

[6] Specifically, DoD OIG report DODIG-2016-040 found that CSTC-A did not enforce penalties for MoI fuel commitment letter violations.

because the offending corps turned in its consumption reports shortly after the penalty was enforced. Since April 2016, each ANA corps has provided on-time consumption reports.

Further, CSTC-A effectively used fuel penalties to enforce other commitment letter requirements. For example, within the MoD commitment letter is the requirement for the MoD to provide ammunition consumption reporting; otherwise, a penalty is authorized. The commitment letter penalty allows for reduction in fuel for the MoD. In July 2016, CSTC-A assessed the 111th Capital Division a 15-percent fuel penalty, 162,000 liters, for not following the commitment letter requirement of ammunition consumption reporting. In October 2016, CSTC-A reported improved ammunition consumption reporting and removed the fuel penalty against the 111th Capital Division.

CSTC-A Validates MoD's Annual Fuel Requirements

CSTC-A and MoD implemented a process to determine fuel allocations that includes a CSTC-A review before establishing a final allocation. The MoD's Construction Property Management Department (CPMD) conducted an annual study to determine the vehicle and generator fuel needs of each corps. The CPMD used a variety of data, including the number and size of generators per corps, number of vehicles per corps, and the prior year's fuel usages to determine the next year's fuel allocation per corps.

CSTC-A officials conducted additional analysis of the CPMD report before allocations were finalized. Specifically, CJ-ENG power subject matter experts, in coordination with EF-5 staff, evaluated the study to determine the sufficiency of CPMD's methodology and recommended to EF-5 leadership whether to accept the allocation rates. For example, the CPMD provided a study in 2016 that contained new allocation rates for each corps. However, the CJ-ENG determined there were discrepancies in the methodology used by the CPMD, such as an inconsistent number of generators per corps and the report did not include adjustments for seasonality. The EF-5 decided not to accept MoD's new allocation rates and will continue using the previous year allocation rates until the CPMD corrects the deficiencies in its study.

Fuel Delivery and Consumption Were Not Verified

Fuel delivery and consumption reports were provided to CSTC-A and MoD by vendors and ANA corps, respectively. However, CSTC-A and MoD could not ensure the accuracy of fuel delivery and consumption reports.

CSTC-A and MoD Relied On Vendor-Provided Delivery Data

CSTC-A and MoD relied solely on vendor-provided fuel delivery data to determine how much fuel a corps receives. Vendors provided the EF-5 with a summarized monthly delivery report showing the percentage of fuel delivered to each ANA corps. The EF-5 tracked fuel deliveries to determine whether all corps receive their full order of fuel; EF-5 contacts the vendor if there is a problem.

For example, an October 2016 delivery report summary showed that the ANA 215th Corps had received only 39 percent of its monthly fuel order. In this instance, the EF-5 contacted the vendor and determined that the deliveries were delayed because of security problems throughout 215th area of operation during the month.

Fuel Deliveries Were Not Physically Verified

CSTC-A did not have a requirement in the commitment letter for the MoD to inspect fuel delivery points to verify vendors' delivery of fuel. Fuel was delivered to dozens of remote bases throughout Afghanistan, many located in rough terrain and in unsecured areas. For example, the 209th Corps in Northern Afghanistan requires delivery to 11 bases, many located in mountainous areas. According to CSTC-A officials, they did not have sufficient resources to perform onsite inspections or observe fuel activities due to security concerns.

CSTC-A did not have a requirement in the commitment letter for the MoD to inspect fuel delivery points to verify vendors' delivery of fuel.

Additionally, since the fuel contracts are administered by the MoD, CSTC-A is not responsible for contract administration, including vendor performance. CSTC-A advised the MoD on how to evaluate vendor performance, but conducting inspections of fuel delivery is not part of its mission. Without physical verification of fuel deliveries, CSTC-A and MoD cannot be certain fuel delivery reports are accurate.

CSTC-A and MoD Relied on ANA Corps–Provided Consumption Data

CSTC-A and MoD relied on consumption data that the ANA corps provided. Monthly consumption reports were used to verify if corps' fuel orders were based on actual consumption needs of vehicles, equipment, and operations. Consumption reports are a condition of the FY 1395 commitment letter and are a method to ensure transparency.

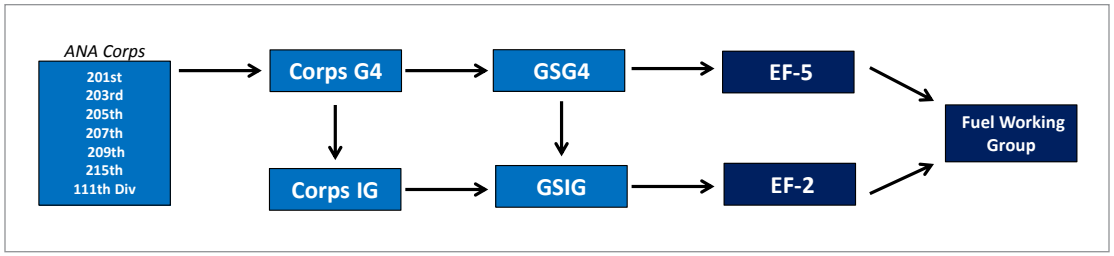
Each month, the GSG4 and the GSIG separately collected consumption data from the corps G4's and corps IG's, respectively. The GSG4 and GSIG conducted their own verification process to determine the sufficiency of the reports and then provided the data to the EF-5 and EF-2. Also, the GSG4 provided their data to the GSIG to make comparisons to ensure there were no discrepancies.

According to EF-5 personnel, when the GSG4 provided consumption data, the EF-5 reviewed the consumption reports to determine if the corps consumed more or less than its monthly allocation. If there was a difference between consumption and allocation, the EF-5 addressed the discrepancy with its GSG4 counterparts and other fuel stakeholders at the monthly FWG.

EF-2 personnel also stated that they did not conduct analysis of the consumption reports. If their GSIG counterparts reported a problem with any of the reports, the EF-2 would advise the GSIG how to proceed.

FWG and ESC attendees each discuss the consumption reports after the GSG4 and GSIG forward them to the EF-5 and EF-2. The GSG4, GSIG, EF-5, and EF-2 will discuss any reporting anomalies, and the GSIG will inform the committee whether, according to its methodology, the reports were accurate.

Figure. MoD Fuel Consumption Report Flowchart



Source: CSTC-A, EF-2

Validation Process for Consumption Reports Was Uncertain

CSTC-A was not certain of the sufficiency of the processes the GSG4 and GSIG use to collect and validate consumption reporting. The consumption reports provided by the GSG4 and GSIG were a compilation of dozens of reports from ANA corps' subordinate commands. According to EF-2 and EF-5 officials, the GSIG would inform CSTC-A if the corps consumption data was received on-time and whether or not the data were accurate; however, CSTC-A officials did not know what methodology the GSIG used to make its assessment.

CSTC-A did not require the GSG4 or GSIG to conduct periodic, random, physical inspections of ANA locations to ensure the corps were consuming all of the fuel that they reported to consume. Therefore, the ANA may have over-reported consumption and hoarded fuel for sale or for other purposes.

CSTC-A did not require the GSG4 or GSIG to conduct periodic, random, physical inspections of ANA locations to ensure the corps were consuming all of the fuel that they reported to consume.

U.S. Funding Was Vulnerable to Fraud, Waste, and Abuse

As a result, U.S. direct assistance continues to be vulnerable to fraud, waste, and abuse. Specifically, CSTC-A could not assure that fuel purchased on two U.S. direct assistance–funded contracts, valued at $174.7 million, was used to support ANA requirements.

CSTC-A officials provided examples of corruption and fuel theft that can begin as soon as a delivery truck enters Afghanistan. According to CSTC-A, corrupt border guards or criminal elements have stolen portions of fuel as a toll for allowing drivers to pass. The CTSC-A also commented that in the past, an ANA commander took 2,000 liters of fuel from every truck that arrived to his base. Additionally, corrupt drivers can collaborate with criminal elements or ANA personnel to steal or sell fuel for personal profit. CSTC-A's current process of relying on vendor-provided delivery data and corps-provided consumption data will not prevent this type of corruption.

Recommendation

We recommend the Commanding General, Combined Security Transition Command–Afghanistan:

a. **Require future Ministry of Defense fuel contracts to include provisions for periodic, unannounced inspections to validate fuel deliveries.**

b. **Direct the Essential Function 1 Audit division to conduct an assessment of the current General Staff, Inspector General and General Staff, Chief of Logistics consumption report verification processes to determine its adequacy.**

Management Actions Taken

On October 8, 2016, we advised the CSTC-A Chief of Staff and officials from EF-1, EF-2, and EF-5 that deficiencies existed in the controls of the U.S. direct assistance-funded MoD fuel contracts. Specifically, the reliance on vendors and ANA corps to provide fuel delivery and consumption reports, respectively, without any independent verification. Management agreed with our observations and confirmed they were planning actions to address weaknesses within the oversight of fuel contracts.

According to CSTC-A officials, CSTC-A recognized that greater U.S. control of the fuel contracts was needed to reduce corruption and began to work with the Office of the Secretary of Defense and the Defense Logistics Agency to develop a bulk fuel contract for FY 2017. The contract, expected to be awarded in August 2017, will be fully administered by the U.S. government.

CSTC-A will continue to assist the MoD in developing its bulk fuel contracting capabilities by training MoD IG, contracting, and finance personnel in contract award and administration procedures.

In memorandums to the MoD and MoI, the CSTC-A Commanding General stated that improvement of MoD's procurement processes in areas such as bid evaluation, contract administration, and vendor pay processes was required for the MoD to execute high-visibility, high-value commodities contracts. Consequently, CSTC-A believes U.S. administration of the bulk fuel contract is the best method to provide proper oversight of U.S. direct assistance.

Specifically, CSTC-A identified 12 fuels specialists, who will compose multiple Petroleum Teams, to provide oversight of fuel delivery and statistically relevant fuels sampling across the Train, Advise and Assist Commands. According to CSTC-A, the Petroleum Teams, comprising of U.S. military personnel, will be positioned at several coalition bases throughout Afghanistan and will conduct physical inspections of the fuel deliveries. A team will be notified from 12 to 24 hours before fuel is delivered to an ANA Forward Operating Base. The team will coordinate air travel and security and report to the delivery location. When the delivery truck arrives, the team will verify the amount of fuel in the tank, inspect the equipment, test the fuel quality, and prevent ANA officials from charging vendors a toll for downloading fuel. CTSC-A officials stated there will be a minimum of two inspections per month.

CSTC-A identified 12 fuels specialists, who will compose multiple Petroleum Teams, to provide oversight of fuel delivery and statistically relevant fuels sampling across the Train, Advise and Assist Commands.

CSTC-A's plan to conduct inspections of fuel deliveries addresses our concern of relying on vendor-provided delivery data. Additionally, the Petroleum Teams will coordinate with local ANSDF fuel officers to train them in inspection and fuel testing techniques.

Consumption reporting requirements will not change when the U.S.-administered fuel contract is in place. Therefore, the FY 1396 commitment letter will continue to require ANA to submit monthly fuel consumption reports. The EF-5 will continue to monitor the consumption reports from each ANA corps and will continue to assess penalties for violation of commitment letter conditions.

Additionally, CSTC-A will direct its audit division to conduct an assessment of the GSG4 and GSIG process of consumption report collection and verification. The U.S. Petroleum Teams will be responsible for delivery inspections only, and the team will not be responsible for consumption inspections. CSTC-A concurred that it needed to improve its awareness of the MoD's consumption reporting process in order to encourage greater transparency and accuracy over consumption reports.

However, we will monitor progress in implementing the corrective actions to address the recommendation and are contemplating a follow-up audit in the near future to assess corrective action on these and other recent OIG recommendations made related to U.S. direct funding in Afghanistan.

Appendix A

Scope and Methodology

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

We reviewed the FY 1395 commitment letter to determine what conditions that CSTC-A and the MoD agreed to and we reviewed meeting notes, consumption reports, and delivery reports to determine if MoD met its required conditions.

We conducted a site visit to Resolute Support headquarters from October 1, 2016, through October 9, 2016. During the site visit, we interviewed CSTC-A Chief of Staff and officials from the EF-1 (including Financial Management Oversight, Combined Joint-8, Contract Enabling Cell, and Audit), EF-2, and EF-5 to determine each office's oversight responsibilities for the MoD fuel contracts and to identify oversight strengths and weaknesses.

Additionally, on October 15, 2016, we interviewed the Deputy Commanding General of CSTC-A to obtain more information on the reasons why CSTC-A was planning to award a U.S.-administered bulk fuel contract in FY 2017.

Use of Computer-Processed Data

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

Prior Coverage

During the last five years, the DoD OIG, and the Special Inspector General for Afghanistan Reconstruction (SIGAR) released reports on U.S. direct assistance in Afghanistan. Unrestricted DoD OIG reports can be accessed at http://www.dodig.mil/pubs/index.cfm. Unrestricted SIGAR reports can be accessed at https://www.sigar.mil/allreports/index.aspx?SSR=5.

DoD OIG

Report No. DODIG-2017-027, "The Combined Security Transition Command–Afghanistan Needs to Strengthen the Controls Over U.S. Direct Assistance Funding," December 1, 2016.

> The DoD OIG found GIRoA and CSTC-A need to improve shortfalls in GIRoA's contracting process. Specifically, GIRoA provincial leaders entered into informal agreements with contractors to provide goods and services without the authority to obligate the ministry and did not identify areas of high risk in the procurement process. Additionally, CSTC-A did not consistently penalize GIRoA for repeated commitment letter violations. As a result, future U.S. direct assistance funding continues to be vulnerable to fraud, waste, and abuse. In addition, GIRoA may not be able to fulfill ANDSF requirements.

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

> The DoD OIG found CSTC-A and MoI oversight of the MoI fuel contracts was not effective because CSTC-A's organizational structure did not have well-defined roles and responsibilities for contract oversight and the CSTC-A did not enforce the fuel reporting requirements within the commitment letter. As a result of the lack of contract oversight and insufficient reporting data, the CSTC-A did not have reasonable assurance that the fuel ordered and delivered to the Afghanistan National Police, valued at $437.6 million, supported actual requirements and was used for its intended purpose.

Report No. DODIG-2015-108, "Assessment of U.S. and Coalition Efforts to Develop the Sufficiency of Afghan National Security Forces' Policies, Processes, and Procedures for the Management and Accountability of Class III (Fuel) and V (Ammunition)," April 30, 2015.

> The DoD OIG observed that ANDSF units ordered and received fuel and ammunition based on unit allocations instead of operational requirements; ANDSF Ministries had inadequate and underdeveloped control measures for the management and accountability of fuel and ammunition; both Ministries leadership were not taking full advantage of training opportunities at the ANA Combat Service Support School; and ANDSF Ministries were not prepared for effective oversight of the bulk fuel contract to ensure that direct financial contributions from the U.S. were used as required.

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

The DoD OIG concluded that the CSTC-A, MoD, and MoI did not have controls in place to effectively manage accountability of 95,000 vehicles procured by the DoD for Afghan National Security Forces because the CSTC-A did not implement an effective system to properly track and account for vehicles transferred to the ANDSF; did not enforce consequences to hold the MoD and MoI accountable for tracking vehicles transferred; and the MoD and MoI did not place adequate controls over the accountability of vehicles they received from DoD and Coalition forces.

Report No. DODIG-2015-082, "The Government of Islamic Republic of Afghanistan's Controls over the Contract Management Process for U.S. Direct Assistance Need Improvement," February 26, 2015.

The DoD OIG found the MoI and MoD did not have effective controls over the contract management process to develop requirements, award, execute, or monitor contracts funded with U.S. direct assistance to sustain the ANDSF. The MoD and MoI did not develop internal compliance functions within the ministries to ensure adherence to the Procurement Law and commitment letters. As a result, future direct assistance funds are vulnerable to fraud and abuse because the GIRoA had numerous contract award and execution irregularities and Procurement Law and commitment letter violations.

SIGAR

Report No. SIGAR-15-14-SP, "Direct Assistance: Review of Processes and Controls Used By CSTC-A, State, and USAID," October 23, 2014.

SIGAR concluded that CSTC-A instituted a number of controls to record financial transactions. However, CSTC-A did not institute other controls, such as: completing a comprehensive assessment of ministerial financial management capacity and internal control systems; requiring the Afghan ministries to maintain accounting record in accordance with generally accepted accounting principles; and establishing a formal monitoring and evaluation plan for its direct assistance funds.

Report No. SIGAR Audit 13-4, "Afghan National Army: Controls Over Fuel For Vehicles, Generators, And Power Plants Need Strengthening To Prevent Fraud, Waste, And Abuse," January 24, 2013.

> SIGAR found that CSTC-A lacked sufficient accountability in the process used to order, receive, and pay for petroleum, oil, and lubricants for ANA vehicles, generators, and power plants; processes for price approval, ordering, receipt, delivery and payment of fuel were beset by major vulnerabilities; and estimates for funding were based on unsupported data. As a result, the lack of accountability increases the risk that U.S. funds and fuel will be stolen, and CSTC-A estimates for fund purchases of ANA petroleum, oil, and lubricants between fiscal years 2014 and 2018 are based on questionable calculations.

Appendix B

Resolute Support Essential Functions

U.S. Forces–Afghanistan and CSTC-A's EFs are organizations and functional topics that provide the framework and guidelines to achieve Afghan sustainability.

~~(FOUO)~~ [redacted]

~~(FOUO)~~ [redacted]

~~(FOUO)~~ [redacted]

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~~**(FOUO)**~~ [redacted]

~~**(FOUO)**~~ [redacted]

Acronyms and Abbreviations

ANA	Afghanistan National Army
ANDSF	Afghanistan National Defense Security Forces
ASFF	Afghanistan Security Forces Fund
CSTC-A	Combined Security Transition Command–Afghanistan
EF	Essential Function
ESC	Executive Steering Committee
FWG	Fuel Working Group
GIRoA	Government of the Islamic Republic of Afghanistan
GSG4	General Staff, Chief of Logistics
GSIG	General Staff, Inspector General
MoD	Ministry of Defense
MoI	Ministry of Interior

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